FORMULATION OF THE 2012 FARM BILL

HEARINGS

BEFORE THE

SUBCOMMITTEES ON:
RURAL DEVELOPMENT, RESEARCH, BIOTECHNOLOGY, AND FOREIGN AGRICULTURE;

CONSERVATION, ENERGY, AND FORESTRY;

LIVESTOCK, DAIRY, AND POULTRY

NUTRITION AND HORTICULTURE;

DEPARTMENT OPERATIONS, OVERSIGHT, AND CREDIT;

AND

GENERAL FARM COMMODITIES AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

APRIL 25, 26; MAY 8, 10, 16, 17, 18, 2012

Serial No. 112–30

Part 2 (Final)

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FORMULATION OF THE 2012 FARM BILL (RURAL DEVELOPMENT PROGRAMS)

WEDNESDAY, APRIL 25, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RURAL DEVELOPMENT, RESEARCH,
BIOTECHNOLOGY, AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:33 p.m., in Room 1300 of the Longworth House Office Building, Hon. Timothy V. Johnson [Chairman of the Subcommittee] presiding.

Members present: Representatives Johnson, Thompson, Stutzman, Scott, Hultgren, Hartzler, Schilling, Costa, Cuellar, and Sewell.

Staff present: Mike Dunlap, Tamara Hinton, DaNita Murray, Lauren Sturgeon, Suzanne Watson, Andy Baker, Liz Friedlander, John Konya, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. TIMOTHY V. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM ILLINOIS

The CHAIRMAN. This hearing of the Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture to assess rural development programs in advance of the 2012 Farm Bill will come to order. I have a brief opening statement—not as brief as I would like but be what it is—to read before we start, and I ask the Ranking Member, Mr. Costa, to do likewise.

Good afternoon and welcome to this hearing to review the rural development programs in advance of the 2012 Farm Bill. This is the first of eight hearings which will be held by the various Subcommittees to review Federal farm policy before we begin drafting the reauthorization of ag programs. These Subcommittee hearings are a continuation of the Committee's work to gather information on farm policy. We have also conducted 11 audits of farm programs—three of which were held by this Subcommittee—and four field hearings to gather input directly from producers across America.

Today, we are focusing on how the Federal Government makes investments in rural communities. While the infrastructure needs such as water, wastewater, and broadband access are similar throughout every town and city in America, small, rural towns that make up a good part of our districts face unique challenges. Each farm bill seeks to address long-standing challenges and adapt to new ones in the rural development title.

Without a doubt, access to water, energy, and broadband infrastructure plays a critical role in each community's ability to create a competitive business environment. Even with the right infrastructure in place, limited access to credit and business training could impede the community's ability to develop and start new enterprises.

And I might say parenthetically that at least three or four of us were at a Subcommittee hearing in Springfield, Illinois, where we specifically dealt and focused on the broadband issue, it was very instructive and very helpful. Our staffs did a great job and I hope we will be able to integrate some of the input received and add that into a final product.

Today's discussion will take us across a wide range of issues as we look at the range of programs offered by the USDA. It is in part the sheer number of programs which makes it difficult to gauge the effectiveness of current policy. Just a few weeks ago, we heard testimony from GAO regarding the extent of duplication and fragmentation among Federal agencies. As the Committee considers how to reauthorize current programs, it seems prudent to also seek ways to weed out activities and authorities that are either redundant or ineffective and in doing so, these programs would be made more accessible to applicants, reduce USDA's administrative burden, and focus program resources on core responsibilities. As Congress looks at ways to address the deficit, scarce funds must be stretched to accomplish more than ever.

Before us today are two panels comprised of organizations that assist rural America in a variety of ways, but are universally focused on developing the livelihoods and economies of virtually every rural town and county. As partners and implementers of USDA programs, our witnesses will be able to provide an in-depth discussion of the farm bill and ways to strengthen our approach to rural economic development.

Our first panel includes representatives of co-ops, counties, and development organizations whose members are found in every corner of the country. Among the issues we hope to address with our first panel is the fragmentation of programs, challenges of regional coordination, and ways to improve program applications.

Our second panel will focus on infrastructure programs and how our water, wastewater, and telecommunications programs are functioning. Particularly in light of budget constraints, we hope to receive additional feedback on how the programs can be adjusted to reach more communities with the given resources.

We appreciate the time that each of the witnesses have given us to prepare their testimony. The testimony received today will be significant as we begin the process to reauthorize the farm bill.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF HON. TIMOTHY V. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM ILLINOIS

Good morning and welcome to this hearing to review rural development programs in advance of the 2012 Farm Bill. This is the first of eight hearings which will be held by the various Subcommittees to review Federal farm policy before we begin drafting the reauthorization of agricultural programs. These Subcommittee hearings are a continuation of the Committee's work to gather information on farm policy. We've also conducted 11 audits of farm programs—three of which were held by this

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Without a doubt, access to water, energy, and broadband infrastructure plays a critical role in each community's ability to create a competitive business environment. Even with the right infrastructure in place, limited access to credit and business training can impede a community's ability to develop and start new enterprises.

Today's discussion will take us across a wide range of issues as we look at the range of programs offered by USDA. It is, in part, the sheer number of programs which makes it difficult to gauge the effectiveness of current policy. Just a few weeks ago, on March 21st, we heard testimony from the Government Accountability Office (GAO) regarding the extent of duplication and fragmentation among Federal agencies.

As the Committee considers how to reauthorize current programs, it seems prudent to also seek ways to weed out activities and authorities that are either redundant or ineffective. In doing so, these programs would be made more accessible to applicants, reduce USDA's administrative burden, and focus program resources on core responsibilities. As Congress seeks ways to address the deficit, scarce funds must be stretched to accomplish more than ever.

Before us today are two panels comprised of organizations that assist rural America in a variety of ways, but are universally focused on developing the livelihoods and economies of virtually every rural town and county. As partners and implementers of USDA programs, our witnesses will be able to provide an in-depth discussion on the farm bill and ways to strengthen our approach to rural economic development.

Our first panel includes representatives of cooperatives, counties, and development organizations whose members are found in every corner of the country. Among the issues we hope to address with our first panel is the fragmentation of programs, challenges to regional coordination, and ways to improve program applications.

Our second panel will focus on infrastructure programs, and how our water, wastewater, and telecommunications programs are functioning. Particularly in light of budget constraints, we hope to glean additional feedback on how the programs can be adjusted to reach more communities with the given resources.

We appreciate the time that each of our witnesses took to prepare their testimony and travel to be here today. The testimony we receive today will be invaluable as we begin the process to reauthorize the farm bill.

The CHAIRMAN. With that, I would like to turn to my friend and colleague from California, the Ranking Member, Mr. Costa, for a statement as well.

OPENING STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. COSTA. Thank you very much, Mr. Chairman, for your leadership and your comments. And let me take this opportunity since this is the first Subcommittee hearing that we have held since your announcement regretfully to make this your last term in serving the people of Illinois as a distinguished Member of the House; we appreciate all of the good work that you have done over the years and the hard work that you have done on behalf of your constituents, as well as a terrific Member of the House Agriculture Committee. Your focus and your care are well known and the sacrifices you and your family have made so you could serve the people of our United States is truly appreciated. So let me thank you again on behalf of all the Members of the Subcommittee and our colleagues for a job well done and we will look forward to continuing to work with you before the end of this year is out.

The CHAIRMAN. Let me just say a very sincere thanks to you for not only the comments but for the wonderful partnership that we have created on this Subcommittee and the input and role that you play, which is overwhelmingly appreciated and your friendship is as well. So those comments are especially important to me and thank you so much.

Mr. COSTA. Well, thank you again, Mr. Chairman.

This hearing is important, as all the hearings that this Subcommittee has held, as it relates to the rural development title of the farm bill and the organizations that are going to testify in terms of your input and as it relates to the United States Department of Agriculture's rural development programs, which I think, and Members of the Subcommittee believe, are critical as we reauthorize the 2012 Farm Bill.

Rural America, as we all know, comprises ¾ of the nation's land and is home to more than 50 million people. The rural development programs in this title help their interests and the prosperity of those communities that we represent. These programs authorized by the rural development title of the farm bill support an array of public facilities and services. In addition, rural development programs have allowed communities to apply for loans, loan guarantees, and grants, which are critical throughout rural America.

Over the course of nearly 80 years, since the Great Depression, the landscape of rural America has changed greatly. Our nation's policy related to rural America has also changed. And even as manufacturing and service sectors have replaced some agricultural production as dominant economic forces in some of rural America, we know that there are a lot of commonalities that rural America share together, including the bountiful harvest of American agriculture.

As we look at the reauthorization of the farm bill, it is my belief that this Subcommittee and the full Committee should look closely at what it means to be rural in the 21st century and how increasingly limited Federal resources can be leveraged to assist our rural communities.

In February 2011, we held a hearing of this Subcommittee examining the definition of *rural* as it applies to the USDA programs. However, to date, sadly, we still have not received the report promised by the United States Department of Agriculture clarifying that definition. Please, Secretary Vilsack, if you are hearing this anywhere, members of the USDA, if you are hearing this anywhere, we would like to get the report.

In fact, my Congressional district is one of the most productive agriculture regions in the country and many of our communities not only are rural but many of my communities are poor and disadvantaged. Despite the clear need, my district struggles with eligibility requirements under the rural development programs, as, for example, whether or not rural housing help or essential community facilities can be included largely because of the criteria used to define what rural means. Establishing a nationwide definition of *rural* presents challenges, I understand, regionally from the South to the Northeast the Midwest to the West. However, it seems to me that we ought to be able to work through this.

We have a very able state director with USDA who is here in the audience today, Dr. Glenda Humiston, who I work with on a regular basis. She just told me that in looking at the 2011 Census data, as an example, 98 communities in California will no longer be deemed as falling under the definition of *rural,* which more tragically or unsatisfying for many of my colleagues represent 80 percent of their loan portfolio. So with the new definition, because of population increases that are taking place, 98 communities in California will no longer be considered rural and that impacts 80 percent of the loan portfolio as the state director just informed me. And by the way, I want to thank Dr. Glenda Humiston for doing the terrific job that she does.

I think everyone here, our witnesses included, would be hard-pressed to come up with a singular definition. I know that is tough—that accurately portrays what it means to be rural in every state. There isn't a one-size-fits-all I do not believe. Recent farm bills have updated the definition of *rural,* so I look forward to hearing the witnesses' view on how we might address this issue. If more of our rural communities can be better served with a different set of criteria or a different regionally based approach, then let's hear about it before we reauthorize the 2012 Farm Bill.

That said, Mr. Chairman, I am particularly interested in hearing from representatives of the telecommunications organizations responsible for delivering broadband services to consumers in rural communities connecting rural America to what we know is a global economy. Whether it is in my home State of California or anywhere between, Federal programs and private service providers have made great strides in deploying broadband. The hearing that you mentioned in Illinois that the Subcommittee held last year brought that out in terms of the access to broadband, and you had some very good witnesses that testified.

I want to highlight a few California figures that illustrate why the issue of rural broadband is so important not just in my district but in states and communities all across rural America. When you think of California—and I know that people have a lot of different thoughts when they think of California—but oftentimes it is Silicon Valley, its high-tech sector are probably many things that come to mind. According to a 2008 report, California Broadband Task Force, we are a leading state in broadband penetration. However, that figure is misleading. The same report found that 1.4 million rural Californians lacked access to broadband and barely ½ the state's residents have broadband access at home. For these households with annual incomes of $25,000 or less, many in my district, the situation is even bleaker with less than ¼ of the households subscribing to broadband.

What this shows me is despite relative success in putting wires in the ground, the Federal Government and private sector broadband providers, public institutions still have a lot of work to do in bridging the divide between the haves and the have-nots. And let me tell you why I think this is so important, especially in rural America—because we are closely reaching our ability to have access or capacity on broadband. American agriculture is at the cutting edge around the world in this broadband technology as it relates to irrigation technologies, as it relates to tillage technologies.

Broadband is being used to make our farmers more efficient and more effective. Yet when you limit their capacity or the broadband capacity for American farmers, dairymen, and ranchers, it has an economic impact in this global economy that they have to compete in.

Finally, Mr. Chairman, research is an important task of the Subcommittee and the separate title of the farm bill and I just want to take a moment to speak on that. Research has been at the core of the United States Department of Agriculture for nearly 150 years since the Department of Agriculture was created. Particularly, through our land-grant institutions—and many of us represent land-grant institutions—research driven by the United States Department of Agriculture has helped ensure safe, abundant, and affordable food supply and fiber that has not only made American farmers and farm households thrive but be among the very best in the entire world.

Equally important to these efforts is the research conducted by even many of our non-land-grant agricultural schools such as my alma mater, Fresno State—go Bulldogs—which is one of the premier ag schools in the West. I am sure it comes as no surprise to many of my colleagues that of particular interest is the research being conducted in Specialty Crops Research Initiative that many of us fought very hard for in the 2008 Farm Bill. It was created there for the purpose of continuing to expand that. It expires this year. Specialty crops represent approximately ½—½—of the United States agricultural exports without support in the farm bill. So it is an assistance through technical programs such as market access, such as Specialty Crops Research Initiative, such as efforts for pest detection and eradication—I can get it out I know I can—that help us thrive when we deal with infestations.

So I look forward to the reauthorization and working together on a bipartisan basis in the farm bill. It is critically important that competitive research dollars remain available to our institutions throughout the United States to support American agriculture. I look forward to hearing from the witnesses who participate in the rural development programs and their views and their proposals about how we can maintain and strengthen the United States Department of Agriculture's largely successful rural development programs in a cost-saving environment that we know that we are in as we reauthorize the 2012 Farm Bill.

Mr. Chairman, thank you. I spoke longer than I should have but I had a lot to say this afternoon. Thank you.

[The prepared statement of Mr. Costa follows:]

PREPARED STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Thank you, Chairman Johnson, for calling today's hearing, to discuss the rural development title in the farm bill and hear from organizations that participate in the USDA rural development programs in advance of the 2012 Farm Bill.

Rural America comprises ¾ of the nation's land area and is home to more than 50 million people. The rural development programs under this title help advance the interests and prosperity of these communities.

The programs authorized through the rural development title of the farm bill support an array of public facilities and services. In addition, rural development programs allow communities to apply for loans, loan guarantees, and grants, which provide much needed assistance to help advance their farm or community.

In one form or another, the Federal Government has assisted rural families and communities since the Great Depression.

Over the course of the nearly 80 years since that time, the landscape of rural America has changed greatly, and our nation's policies related to rural America have changed with it.

Even as the manufacturing and service sectors have replaced agriculture production as the dominant economic force in much of rural America, the common needs of our rural communities remain.

As we look to reauthorize the farm bill, it is my belief that this Subcommittee and the full Committee must look closely at what it means to be a rural community in the 21st century and how increasingly limited Federal resources can be leveraged to position rural areas to better compete in a global economy.

In February 2011, we held a hearing in this Subcommittee examining the definition of rural as it applies to USDA programs. However, to date, we have still not received the report promised to us by USDA clarifying the definition.

The fact is, my Congressional district is one of the most productive agricultural regions in the country and many of our communities are not only rural, but also largely poor and disadvantaged.

Despite the clear need, my district struggles with eligibility for rural development programs, whether it is rural housing, health, or essential community facilities, largely because of the criteria used to define rural communities.

Establishing a nationwide definition of rural presents challenges for communities in all corners of the country.

I think everyone here, our witnesses included, would be hard-pressed to come up with a singular definition that accurately portrays what it means to be rural in each and every state.

Recent farm bills have updated the definition of rural, so I look forward to hearing our witnesses' thoughts on whether further reforms should be considered in the next farm bill to more effectively and efficiently operate rural development programs.

If more rural communities can be better served with a different set of criteria or a different regionally-based approach to development, then that is something this Committee should consider in this farm bill.

That said Mr. Chairman, I am particularly interested in hearing from the representatives from the telecommunications organizations responsible to delivering broadband services to consumers in rural communities and connecting rural America to the global economy.

Whether it's in my home State of California or anywhere in between, Federal programs and private service providers have made great strides in deploying broadband.

I want to highlight a few California figures that illustrate why the issue of rural broadband is so important for my district, my state and communities all across rural America.

When you think of California, Silicon Valley and our high-tech sector are probably among the first things that come to mind. And according to a 2008 report by the California Broadband Task Force, California does lead the nation in broadband penetration, with 96 percent of Californians having access to the technology.

But this figure is also misleading. The same report found that 1.4 million rural Californians lack access to broadband and barely ½ of the state's residents have broadband access at home.

For those households with an annual income of less than $25,000—many of which are in my district—the situation is even bleaker, with less than ¼ of households subscribing to broadband.

What this shows me is that despite relative success in putting wires in the ground the Federal Government, broadband providers and public institutions still have a lot of work to do in bridging the divide between the haves and have-nots when it comes to broadband, particularly in rural America.

Finally Mr. Chairman, research is another important task of this Subcommittee and a separate title of the farm bill, and I want to take just a moment to speak on that.

Research has been a core mission of USDA for the nearly 150 years since the Department was created.

Particularly through our land-grant institutions, the research driven by USDA has helped ensure a safe, abundant and affordable supply of food and fiber that has helped American farmers thrive.

Equally important to these efforts is the research conducted by our non-land-grant agriculture schools, such as Fresno State University in my district.

I'm sure it comes as no surprise by now to my colleagues that of particular interest to me is the research being conducted through the Specialty Crops Research Initiative, which was created in the 2008 Farm Bill.

The mandatory funding for this program expires after Fiscal Year 2012.

Specialty crops represent approximately ½ of the value of U.S. agriculture without support from title I of the farm bill, so assistance through technical programs such as the Market Access Program and research programs like the Specialty Crops Research Initiative are particularly important to help this vital sector thrive.

As we look toward reauthorization of the farm bill it is critically important that competitive research dollars remain available to these institutions to continue their good work on behalf of American agriculture.

I look forward to hearing from our witnesses who participate in USDA rural development programs and their views and proposals about how we can maintain and strengthen USDA's largely successful rural development programs in a cost-saving environment in the 2012 Farm Bill.

Thank you again, Mr. Chairman, for calling this hearing. I yield back my time.

The CHAIRMAN. Thank you, Mr. Costa. And no, you didn't speak too long. In fact, your comments are right on point and I really appreciate them.

Our first panel today is comprised of three individuals, all of whom are highly regarded in their area. Mr. Chuck Conner, my friend and President and CEO of the National Council of Farmer Co-Ops; former Secretary of Agriculture, Mr. Don Larson, Commissioner, Brookings County, South Dakota, on behalf of the National Association of Counties; and Leanne Mazer, I believe, the Executive Director of the Tri-County Council for Western Maryland, Frostburg, Maryland, speaking on behalf of the National Association of Development Organizations.

So with that, Mr. Conner, the floor is yours.

STATEMENT OF HON. CHARLES F. CONNER, PRESIDENT AND PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COUNCIL OF FARMER COOPERATIVES, WASHINGTON, D.C.

Mr. CONNER. Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, on behalf of the nearly 3,000 farmer-owned cooperatives and their producer members, we appreciate the opportunity to testify today.

Rural development programs are intended to bolster rural communities and position them to better compete in a global environment. As such, it is important that USDA rural development programs focus on agriculture and farmer co-ops as the foundation for helping encourage and support rural economies.

There are more than 88 programs administered by 16 different Federal agencies specifically targeted at rural economic development. With a significant decrease in funding for farm bill programs, coupled with declining USDA resources to administer those very programs, it just makes sense to us to consolidate the programs that all have the same objective. It takes the same amount of staff time, Mr. Chairman, to administer a million-dollar program as it takes to administer a $100 million program.

At the same time, the requirements for applying for grants have become overly complicated and too burdensome and have spawned a cottage industry for consultants. Some feedback I have received from my members is that while they are interested in applying for a rural development grant, they don't have the resources to navigate the process and the time and energy required to apply isn't worth the amount of funds they would be eligible for in the end.

Simplifying the application process would lead to more applications resulting in better projects.

That said, Mr. Chairman, the Value-Added Producer Grants Program has been successfully utilized by farmer co-ops. I have specific examples provided by several NCFC members that I would ask at this point be submitted for the record. The program has been instrumental in helping co-ops overcome many barriers faced when developing new products for the marketplace, one of which is working capital. This is particularly acute for advanced planning that requires substantial capital investment or commitment of resources up front.

The program has helped producers launch new agricultural products through their co-ops both domestically and internationally. Having access to Value-Added Producer Grants allows co-ops to capitalize on new business opportunities that would otherwise simply go unexplored. These successful products have resulted in more stable income from the marketplace for producers. The program is administered on a matching-fund basis, thereby doubling the impact of such grants and helping encourage investment and ventures that ultimately benefit all of rural America.

Co-ops bring many producers, Mr. Chairman, together who individually do not have the size, expertise, or resources to take advantage of the value chain beyond their own farm gate and gives them the opportunity to profit from those downstream activities. NCFC strongly believes that co-ops, by spreading the benefits of Value-Added Producer Grants among a large number of producers can give the American taxpayers the greatest bang for their buck.

In 2011, USDA made significant improvements to the program rules that recognize those very benefits that I describe. NCFC supports those changes and ask that they carry through in this farm bill reauthorization process.

Another area of interest to many of my members is the Cooperative Services Program. Over time, that program area has lost many of its experienced professional staff. At one time, the program housed well over 100 employees, but today, that number is less than ten. We are not advocating for additional staff but we do want to see the resources that exist better spent.

For example, there are many research needs that Cooperative Services could provide that would be specifically beneficial to NCFC and our member cooperatives, but currently, much of that research is simply not being done. We often hear from NCFC members that are searching for timely and complete statistics on farmer co-ops. There is an evident lack of complete and timely research on the impact of farmer co-ops on rural economies and those lacking items include number of farmer co-ops and their location, number of employees, aggregate payroll amounts, farmer co-op market share of various commodities, and of course, the patroness dividends that we return to our farmer owners.

In addition, we encourage Cooperative Services to revisit and update the very useful legal and tax publications that have been a cornerstone of cooperatives in the past. NCFC does seek inclusion of report language better directing the focus of USDA's Cooperative Services and looks forward to working with this Committee in this regard.

So I thank you, Mr. Chairman, for the opportunity to testify before your Subcommittee today and look forward to answering questions at the appropriate time.

[The prepared statement of Mr. Conner follows:]

PREPARED STATEMENT OF HON. CHARLES F. CONNER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COUNCIL OF FARMER COOPERATIVES, WASHINGTON, D.C.

Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, thank you for the invitation to testify today on how the 2012 Farm Bill can best help rural America meet current and new challenges, and specifically address issues as you look to write the rural development title.

I am Chuck Conner, President and Chief Executive Officer of the National Council of Farmer Cooperatives (NCFC). NCFC represents the interests of America's farmer cooperatives. There are nearly 3,000 farmer cooperatives across the United States whose members include a majority of our nation's more than two million farmers. These farmer cooperatives allow individual farmers the ability to own and lead organizations that are essential for the vitality of the agriculture sector and rural communities. Earnings derived by farmer-owned cooperatives are returned to their farmer-members on a patronage basis thereby enhancing their overall farm income that directly supports and keeps capital in the rural economy.

According to the U.S. Department of Agriculture (USDA), rural America comprises ¾ of the nation's land area and is home to more than 50 million people. USDA rural development programs play a vital role in helping to ensure continued prosperity in these communities. We appreciate the opportunity to highlight some of these programs, and their impact on cooperatives and their farmer-owners.

These programs serve a variety of purposes including strengthening farm income, fostering the incubation of business in areas that are capital and financially challenged, and help rural America stay abreast of changing technologies. Rural development programs are intended to bolster rural communities and position them to better compete in a global environment. As such, it is important that USDA rural development programs continue to focus on agriculture and farmer cooperatives as a foundation for helping encourage and support rural economies.

Inasmuch as rural development programs have offered many benefits to American farmers and rural economies, some are often criticized for being unfocused and under-funded. It is worth noting that there are more than 88 programs administered by 16 different Federal agencies specifically targeted at rural economic development. USDA administers most of the existing rural development programs and has the highest average of program funds going directly to rural counties, approximately 50 percent.

With a significant decrease in funding for farm bill programs, coupled with declining USDA resources to administer those programs, consolidation of programs, where feasible, is warranted. It takes the same amount of staff time to write rules, review applications, and administer a $1 million program as it does a $100 million program. It is not an efficient use of limited staff resources to be administering many programs that have differing application and administrative requirements where the overall program objectives are generally similar.

Conversely, the various requirements for applying for grants have become complicated and difficult to figure out and thus spawned a cottage industry for consultants to assist applicants through the process. It would be beneficial to have a system to evaluate the merits of a proposal aside from the professionally written content, and where it is encouraged that participants write their own grant applications. Samples of past grant applications together with work plans may be very useful to applicants. While the level of assistance varies from one state Rural Development office to the next, NCFC members have found their local offices to be extremely helpful resources and USDA staff willing to assist when questions arise.

NCFC supports streamlining the number of programs as well as the application process—the result will be a more efficient, effective agency, while providing for a more understandable, easier-to-navigate application process for all entities.

Value-Added Producer Grants (VAPG)

A barrier that cooperatives often face is the capital necessary to innovate and process new consumer products. This is particularly acute for advance planning by cooperatives that requires substantial capital investment or commitment of resources, such as planning for operating and expansion expenses. Since its establishment, USDA's Value-Added Producer Grants (VAPG) program has been a tremendous success in helping cooperatives overcome those constraints. The program has helped producers launch new agricultural products through their cooperatives, both domestically and internationally. These value-added products benefit both producers and consumers.

With VAPG funds, cooperatives are empowered to capitalize on new value-added business opportunities that would otherwise go unexplored. VAPG helps cooperatives differentiate and expand production, in turn helping them improve the value of their products through processing and marketing. The objective is to increase sales not by displacing other products, but rather build and sustain a market where one previously did not exist. Their successful, self-sustaining products have translated into greater and more stable income for producers from the marketplace. It also has served to promote economic development and create jobs.

The program is administered on a matching-fund basis, thereby doubling the impact of such grants and helping encourage investment in ventures that ultimately benefit rural America. As a cost-share program, it is as an excellent example of an effective public-private partnership bringing a number of self-sustaining products to market.

Of the 298 recipients of Value-Added Producer Grants for 2012, 26 are farmer-owned cooperatives. NCFC strongly believes that cooperatives efficiently spread the benefits of the VAPG among a larger number of producers in the aggregate. Cooperatives by their nature bring many producers together who individually do not have the size, expertise and resources to take advantage of the value chain beyond the farm gate and gives them the opportunity to profit from those down-stream activities. Therefore, funds invested by USDA and the benefits of projects generated by cooperatives through the VAPG are distributed to a wide number of producers. Likewise, by investing in initiatives of cooperatives, USDA lowers the overall costs to the government in program administration per individual farmer that benefits.

In 2011, USDA made significant improvements to the program rules that recognize those benefits. I urge you to also recognize those principles and treat cooperatives as a priority in any direction you may give USDA in administering the VAPG.

Loan Guarantee Programs

Rural Development loan guarantees are a cost-effective way to leverage limited resources and funding. For example, communities in rural America need access to capital to upgrade our nation's water infrastructure. The water and water disposal guarantee loan programs administrated by the Rural Utilities Service of USDA increases ability to leverage all resources—public and private—to provide the financing necessary for our nation's water systems. This program is a cost-effective way to promote public-private partnerships that boost the rural economy and enhance the quality of life in rural communities.

Energy

Cooperatives play a significant role in the development and marketing of renewable energy. In addition to ethanol and biodiesel, many cooperatives also are investigating opportunities for creating renewable energy from biomass such as dairy cow manure through anaerobic digestion. USDA programs also are being used more and more by cooperatives to improve energy efficiency in their facilities. We strongly support reauthorization of these important grant, loan and related programs which research and promote the development and advancement of biofuels and opportunities for biomass, as well as such programs that assist in reaching energy efficiency goals.

USDA Cooperative Services Program

Over time, the Cooperative Services Program has lost many of its experienced professional staff. This office was once the premier source of information on cooperatives' role in various commodity sectors, and on cooperative legal foundations, taxation, finance, member education/information, governance, and board/management relations. There are many areas in addition to these in which research by Cooperative Services could provide especially beneficial information. We often hear from NCFC member cooperatives that are searching for timely and complete statistics on farmer cooperatives. There is an evident lack of comprehensive and updated research on the impact of farmer cooperatives on rural economies.

In addition to research on the economic impacts of farmer cooperatives, Cooperative Services should re-visit very useful legal and tax publications it has published in the past. These publications are used frequently by farmer cooperatives. Materials and/or training sessions for boards of directors would also be greatly beneficial. Subjects such as financial decision-making, ethics, board make-up and representation, and executive succession are all important to the success of a cooperative.

NCFC seeks inclusion of report language better directing the focus of USDA's Cooperative Services, and looks forward to working with the Committee in that regard.

In closing, maintaining a strong agriculture economy is essential to the health of rural America. Some of the challenges faced by the agricultural industry include dealing with immense regulatory pressure and struggling to have access to a legal, stable workforce. While, those issues clearly fall out of the jurisdiction of the USDA's rural development programs, they are vital to a strong agricultural economy. In addition, there are programs contained throughout the farm bill that enhance opportunities for rural communities—from maintaining a meaningful safety net for producers, to supporting agricultural exports.

Thank you again for the opportunity to testify today before the Subcommittee. We look forward to working with you to strengthen USDA's Cooperatives Services, keep the VAPG Program viable and available to farmer co-ops, and streamline other rural development programs and applications. I am happy to answer any questions you may have.

About the National Council of Farmer Cooperatives

Since 1929, NCFC has been the voice of America's farmer cooperatives. NCFC values farmer ownership and control in the production and distribution chain; the economic viability of farmers and the businesses they own; and vibrant rural communities. With an extremely diverse membership, NCFC members span the country, supply nearly every agricultural input imaginable, provide credit and related financial services (including export financing), and market a wide range of commodities and value-added products.

American agriculture is a modern-day success story. America's farmers produce the world's safest, most abundant food supply for consumers at prices far lower than the world average. Farmer cooperatives are an important part of the success of American agriculture. Cooperatives differ from other businesses because they are member-owned and are operated for the shared benefit of their members.

ATTACHMENT

Value-Added Producer Grants

The purpose of the Value-Added Producer Grant program is to help agricultural producers improve the value of their products through processing and/or marketing. Grants can be used for feasibility studies, developing business plans, working capital and for farm-based renewable energy products. Planning grants are available for up to $100,000; working capital grants for up to $300,000. The grants are limited to 50 percent of project costs. Eligible applicants include independent producers, agricultural cooperatives, producer groups and majority-controlled producer-based business ventures.

Farmer-Owned Cooperatives: A Few Examples of VAPG Activities

Blue Diamond: In 2003, Blue Diamond developed a line of three highly seasoned added value almond products. The goal was to attract new users to improve the grower's return long-term by creating a sustainable and meaningful source of revenue. The goals of the VAPG were exceeded by an eightfold increase in sales projections and a successful new line of almond products for consumers was launched that continues to fuel additional demand for a crop that has tripled in the last 10 years. Blue Diamond "Bold" sales were over $40.2 million in 2011, growing more than 18 percent compounded annually. "Bold" flavors have increased fourfold to 12 flavors in 2011.

In addition, the new line now accounts for almost 17 percent of total Blue Diamond snack almond sales; Blue Diamond total snack almond household penetration is now over 11 percent, up from 2.3 percent in 2003; the "Bold" line is distributed in over 35,000 of the nation's largest retail stores.

Blue Diamond Growers is a farmer-owned cooperative headquartered in Sacramento, CA. The co-op created a commercial California almond industry when it organized in 1910. Today, it represents over half of U.S. almond growers and is the leading global manufacturer of almonds. Blue Diamond almond growers are small family farmers, averaging about 55 acres each.

Pacific Coast Producers: Beginning in April of 2003, Pacific Coast Producers (PCP) has earned four separate Value-Added Grants. These grants have assisted PCP Retail Sales, Operations, R&D and Marketing groups in launching dozens of new items into the retail grocery trade including, but not limited to a line of shelf stable, private brand plastic fruit bowls, canned extra light syrup fruits, organic canned tomatoes, fire roasted canned tomatoes and fortified canned fruits. A new grant awarded in February 2012 will serve as a major enabler to rebrand canned and shelf stable fruit and tomato products, making canned food products more relevant in the future and increasingly desired by new consumers.

With the assistance of the USDA Value-Added Grants since 2003, Pacific Coast Producers was able to build our plastic fruit bowl program into a 7,500,000 case per year industry juggernaut, added approximately 240,000 cases per year to our canned fruit program in the Extra Light Syrup sub-category, built an organic tomato program from nonexistent to almost 450,000 cases per year and a fire roasted tomato program of 440,000 cases per year, encompassing annual sales of approximately $78 million dollars and growing. These sales do not displace products from other manufacturers, but rather built and sustained where no interest existed prior to the initial launch with the assistance of the VAPG program. PCP expects each of the aforementioned newly created sub-categories of shelf stable food to continue their rapid growth and for the rebranding of canned items through its Fresh as Fresh Can Be campaign, to permanently lift the sustainability of its California Cooperative Farmers.

Sunsweet: In an effort to stimulate demand for its farmers' production, Sunsweet has used the VAPG program to assist in launching innovative products. "Sunsweet Ones" recast prunes as a "candy nutrient" by individually wrapping moist prunes in cellophane, making them a "snack-on-the-go." In 2007, Sunsweet began marketing a light, low-calorie version of its PlumSmart juice products which is made from fresh prune plums which normally are less visually appealing than the varieties grown for fresh markets. Because the PlumSmart line represents prune-plums as snacks, nutrition-on-the-go, or food with specific nutritional claims, it requires advertising to engage consumer interest.

In addition, the VAPG assisted in launching other Sunsweet products addressing consumers' preferences and expanding demand for their farmers production. The ability for new product development and making a market has been greatly enhanced due to USDA's VAPG.

Founded in 1917 as the California Prune and Apricot Growers Association, the cooperative served as a marketing agent to offer the crops of its members—under the brand name "Sunsweet"—to consumers at better prices than were offered by individual growers. Today, Sunsweet processes and markets the dried fruit production of more than 300 grower-members.

The CHAIRMAN. Thank you, Mr. Conner.

Mr. Larson?

STATEMENT OF HON. DONALD LARSON, COMMISSIONER, BROOKINGS COUNTY, SOUTH DAKOTA; CHAIRMAN, AGRICULTURE AND RURAL AFFAIRS STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES, BROOKINGS, SD

Mr. LARSON. Thank you, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for our opportunity to speak to you today. I am Don Larson. I am a County Commissioner from Brookings County, South Dakota, and I serve as chair of the National Association of Counties Agriculture and Rural Affairs Steering Committee and I am honored to bring the collective perspective of our nation's counties as I represent NACo today.

A vast majority of our nation's 3,068 counties are rural; therefore, our new farm bill with emphasis on rural development is critical to our American counties. Today, we are talking about America's food, fiber, and renewable energy fuels producers and their local economies. Before I get into the details of the testimony, I want to thank the leadership and the membership of the House Agriculture Committee for your commitment to passing the farm bill this year.

In my testimony, Mr. Chairman, I want to make three points, which I lay out in more detail in the written comments provided. First, the lack of sufficient and coordinated infrastructure development and capital are two critical obstacles to economic development and competitiveness in small town and rural America. USDA's broad range of rural development programs should be made a priority in the farm bill because they are a critical source of grant and loan funding that is leveraged by rural business, rural communities, and rural people to overcome these challenges and create jobs.

The programs that assist communities with financing of water infrastructure, community facilities, electric utilities, and broadband deployment are the basic building blocks all communities need to compete. Water and community facilities programs are consistently ranked as the most critical. Rural business programs all increase capital availability and help counties play their important role as intermediaries and technical assistant providers.

Most importantly, the rural development title helps rural communities improve economic opportunity and quality of life. The bipartisan Beginning Farmer and Rancher Opportunity Act, H.R. 3236, provides a model that NACo supports for the kind of initiatives necessary to invest in the next generation of American producers. The rural development title also provides critical support to new and beginning farmers through its ability to finance the infrastructure necessary for local and regional food systems. This growing sector will be enhanced by the NACo-supported Local Farms, Food, and Jobs Act, H.R. 3286. NACo supports maintaining the $150 million in mandatory funding provided in the 2008 Farm Bill.

The second key point is that rural people, businesses, and communities are increasingly operating in dynamic regional economies and USDA rural development programs must be reshaped to a more locally driven strategic regional approach. The importance of Federal investments in regional planning and project implementation is clear in eastern South Dakota. My county, partnered with the City of Brookings, the County of Brookings, South Dakota State University, our state created the South Dakota State University Innovation Campus, the first one in South Dakota. Our Innovation Campus provides a place where people and ideas are coming together to enhance the economic vitality of our region.

We use the ability of our First District Association of Local Governments to develop a business plan and regional strategy with Federal EDA funding. These planning investments provided vital gap funding that helped make our regional vision a reality. EDA got this project off the ground.

USDA, the main Federal partner in rural America, is not structured to make this kind of success story happen. Currently, USDA rural development programs all too often are structured to serve individual communities rather than a larger county and multi-jurisdictional facility and regional strategies and goals. Funding decisions are based on the best-written application as determined by Federal officials, not state and local actors. We suggest the next farm bill direct the Secretary of Agriculture to give priority to projects that demonstrate collaboration and cooperation at the local and regional level. Our towns, cities, and counties can no longer afford to compete in a race to the bottom; rather, we are learning that cooperation and collaboration best utilize limited resources. Incentivizing projects that involve collaboration across jurisdictions is smart policy and supported by rural America.

Our last point is the Campaign for a Renewed Rural Development is a collaboration of 35 national organizations with a sincere interest in rural America's future that is united in six key priorities for the next rural development title. Those are mentioned in my previous report to you.

Ladies and gentlemen, we are here as your partner and we want to work with you to recreate some of these things. And we know if we keep doing what we are doing, we are going to get what we got. Thank you, Mr. Chairman.

[The prepared statement of Mr. Larson follows:]

PREPARED STATEMENT OF HON. DONALD LARSON, COMMISSIONER, BROOKINGS COUNTY, SOUTH DAKOTA; CHAIRMAN, AGRICULTURE AND RURAL AFFAIRS STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES, BROOKINGS, SD

Thank you Chairman Johnson, Ranking Member Costa and Members of the Subcommittee for the opportunity to testify today regarding an assessment of rural development programs in advance of the 2012 Farm Bill.

My name is Don Larson. I am a County Commissioner in Brookings County, South Dakota and I serve as chair of the National Association of Counties' (NACo) Agriculture and Rural Affairs Steering Committee. Brookings County is located in the eastern corner of South Dakota and has a population of around 32,000 people.

Before I get into the details of my testimony I want to start by commending the leadership and membership of the House Agriculture Committee for your commitment to passing a farm bill this year. NACo supports you in that effort in partnership with a broad coalition of groups that urged passage this year. NACo supports all titles in the 2012 reauthorization of the farm bill which is critical to all of our nation's counties due to the important programs and policies that are enacted for rural development, agriculture, nutrition, conservation, research, forestry, energy and a host of other provisions. NACo calls on Congress to place a particular emphasis on crafting a bill that provides a robust and improved Rural Development title and is appreciative of the focus on this topic in today's hearing.

My goal today in covering this important topic is to give you some concrete examples from my county and region and I'm honored to also bring the collective perspective of our nation's rural counties as I represent NACo. NACo looks forward to working with as you consider ways to improve USDA's Rural Development portfolio during the farm bill reauthorization process. We share your deep commitment to rural America and believe that through our working partnership, rural individuals, communities, farmers, ranchers and all other rural businesses will be given more flexibility to expand their economic potential and compete in the global economy.

About the National Association of Counties

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation's 3,068 counties. NACo advances issues with a unified voice before the Federal Government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit *www.naco.org*.

Overview

In my testimony, Mr. Chairman, I want to make three main points.

- **The lack of sufficient and coordinated infrastructure development and capital are two critical obstacles to economic development and competitiveness in small town and rural America. USDA's broad range of Rural Development programs should be made a priority in the next farm bill because they are a critical source of grant and loan funding that is leveraged by rural businesses, rural communities and rural people to overcome these challenges in order to create jobs.**
- **Rural people, businesses and communities are increasingly operating in dynamic regional economies and USDA Rural Development programs must be reshaped to promote and give greater flexibility to these successful regional approaches and local collaborations.**

- **Rural Stakeholders are united in their support for Rural Development programs and have provided a comprehensive list of recommendations to improve these programs.**

Making Rural Development a Priority

Our agricultural sector needs more investments in our rural community infrastructure to remain competitive, both from a quality of life perspective as well as the production, transport and safety of agricultural food and energy crops. Rural Development in the farm bill context shouldn't be viewed as a competitor, but as a complementary component that should be robustly funded with mandatory and discretionary dollars. The agricultural sector is a primary beneficiary of just about every investment made by USDA Rural Development, whether related to improved water and wastewater treatment facilities, improved housing options for workers, more affordable access to business financing, assistance for value-added production marketing or cheaper and reliable services from rural electric, telephone and broadband cooperatives.

Most importantly, the rural development title helps rural communities improve economic opportunity and quality of life so that the next generation of farmers is able to step forward. The percentage of farmers who rely on off-farm income to survive is continuing to accelerate and the average age of farmers and ranchers continues to increase. New and beginning farmers depend on vibrant rural communities to make their operations viable. NACo supports policies that ensure all programs recognize that youth play a vital role in sustaining American agriculture and rural communities. New programs and updates to ongoing programs are needed so that it is possible for young and beginning farmers to survive and thrive in the modern agricultural economy. The bipartisan Beginning Farmer and Rancher Opportunity Act, H.R. 3236, provides a model that NACo supports for the kind of initiatives necessary to invest in the next generation of American producers. It is a comprehensive marker bill with sound ideas for each title and includes rural development programs such as the Value-Added Producer Grants and assistance to entrepreneurial farm enterprises.

The Rural Development title also provides critical support to new and beginning farmers through its ability to finance the infrastructure necessary for local and regional food systems. Growing up we called them truck farms, but today my fellow elected officials and I from across the country are seeing more and more young people get their start in agriculture through small farm to local market operations. NACo supports investments in infrastructure, entrepreneurial programs and facilities that process, distribute, and develop value-added products using locally-grown commodities purchased from local farmers to meet the demand for local, healthy food. The community facilities program and business programs provide important sources of capital to help these markets grow. These programs directly benefit new and beginning farmers, local and regional food systems and the urban and suburban consumers who are gaining access to fresh products. It is also critical to point out that regional and local food systems are bolstering urban—rural economic linkages and providing new economic development opportunities in both.

This growing sector will be enhanced by the NACo supported Local Farms, Food and Jobs Act, H.R. 3286. The bill provides important policy suggestions for the farm bill that are intended to help farmers and ranchers engaged in local and regional agriculture by addressing production, aggregation, processing, marketing, and distribution needs and will also assist consumers by improving access to healthy food and direct retail markets. Local and regional agriculture is a major economic driver in the farm economy. There are now more than 7,000 farmers markets throughout the United States—a 150 percent increase since 2000, direct to consumer sales have accounted for more than $1.2 billion in annual revenues.

NACo and its municipal counterpart the National League of Cities believe that this growing sector exemplifies the success of regional collaborations as communities build upon partnerships to improve access to healthy, local foods. Access to healthy food is increased when local and regional food production, processing, distribution, and retail enterprises work together to build stronger markets for healthy foods. The regional food effort provides an important source of employment in our communities, as it strengthens the viability of small and mid-scale farms and other small businesses along the food chain.

USDA Rural Development also offers capital and infrastructure financing that is critical to all sectors of the rural economy. The programs that assist communities with financing for water infrastructure, community facilities, electric utilities and broadband deployment are the basic building blocks all communities need to compete. The water and community facilities programs are especially important to rural counties. For nearly 40 years, Rural Development has successfully partnered with technical assistance (TA) providers to help rural communities develop this vital infrastructure through various programs, like water and wastewater, solid waste, and mutual self-help housing. By partnering with TA providers, Rural Development is able to maximize the return on every Federal dollar invested in these programs and ensure that they are accessible to all rural communities. We support the reauthorization of these programs due to their success in leveraging outside resources, minimizing the risk of default on Rural Development loans, and developing the capacity of local leaders to manage large projects.

In addition, we urge you to authorize a technical assistance set-aside for the Essential Community Facilities program to enable small communities to provide vital services like public safety, health care, business incubators and other vital services. We also urge you to bolster Rural Development staff and TA providers' capacity to assist rural communities and regions with comprehensive economic development planning. Otherwise, USDA risks funding parallel initiatives that are not coordinated with the current economic development plans of rural communities and regions.

The Intermediary Relending Program (IRP), Rural Business Enterprise Grant Program (RBEG), Rural Business Opportunity Grant Program (RBOG), Business and Industry Loan Program and Rural Microentrepreneur Assistance Program (RMAP) all increase capital availability to rural businesses. Counties play an important role as intermediaries for relending programs and as technical assistance providers through IRP, RBEG and RBOG, but are ineligible to serve as the microenterprise development organizations that assist microenterprises through RMAP. Local governments should be made eligible for RMAP as they are often the sole provider of economic development services in many communities.

Infrastructure development and access to capital remain the most significant roadblocks to economic development and competitiveness in small town and rural America. USDA Rural Development is effective at helping communities overcome these roadblocks, but needs to receive mandatory funding, maintain discretionary funding and be directed to be more strategic with funding in the coming fiscal years in order to overcome these obstacles.

Shifting USDA to a More Locally Driven, Strategic Regional Approach

The next farm bill offers a unique opportunity for Federal policymakers to start pursuing new Federal policies for rural development that ensure the Federal dollar gets stretched farther and that rural localities and regions, not Washington, drive the funding decisions.

At the local level I'm proud of our collaboration with the City of Brookings on multiple joint projects, which are intended to create more opportunities for our residents. NACo and the National League of Cities are also united in many of our priorities at that national level. NACo and NLC both support Federal policies that advance regional and multi-jurisdictional approaches to planning and development. Many communities—rural, urban, small and large—are partnering with various levels of government, as well as public, private and nonprofit organizations to pursue regional development opportunities that grow the local economy. While county and city officials work to find innovative solutions to revitalize our communities, current rural development policy makes it difficult for local leaders to use the available resources most efficiently.

Local jurisdictions pursue regional cooperation for many reasons, including as a means to overcome limitations in accessing traditional financing mechanisms that have grown overburdened or expensive as a result of the current fiscal climate. We think Congress should work to promote regional collaboration in rural development. First, rural development programs can be oriented to give weight to applicants demonstrating local and regional partnerships. Second, the definition of regional partners should be broad enough to recognize a variety of entities active in the life of a community, including nonprofit and for-profit corporations, service providers and other governmental groups, which help local governments achieve success. Third, programs should incent and reward applicants that demonstrate cost savings and avoid duplication of efforts.

Currently, USDA Rural Development programs all too often are structured to serve individual communities rather than larger county and multi-county regional strategies and goals. Funding decisions are based on the best written application and not the level of collaboration and cooperation that a project demonstrates. In today's economy, our rural places are not served well by stove piped programming, but rather need Federal investments to prioritize strategic multi-jurisdictional plans that capitalize on the unique economic assets and unique vision of people, businesses and organizations in rural regions.

Rural people and places do not fit nicely into a box. I encourage you to avoid getting bogged down in the regional fights that erupt when definitions are considered. Instead, I encourage you to focus on providing enhanced flexibility for USDA Rural Development's state offices to provide assistance that fits the uniquely rural nature of their states, by focusing on serving rural regions, both multi-town and multi-county. USDA Rural Development funding should be directed towards the prioritized assets and needs of rural communities and regions and not well written applications written by a consultant in some far off urban area.

The fiscal situation facing all levels of government—Federal, state and local—is dire. Therefore, our investments must be based upon the best economic research available. Historically, policymakers have thought it was impossible for municipalities and unincorporated rural areas to work together as one county or for multiple counties to work together. The prevailing notion was that our interactions in economics and football were the same. We met regularly, but only in competition against each other.

I'm happy to report that this old notion is becoming less and less prevalent. Our towns, cities and counties can no longer afford to compete in a race to the bottom against each other in search of the next big manufacturing plant. No, instead we are being forced to consider new ways of governing in an era of limited government resources. We are working together more efficiently and are streamlining services. NACo pledges to work with you to improve USDA's portfolio of rural development programs in order to assist with this changing dynamic.

Incentivizing projects that involve collaboration across jurisdictions and sectors of the rural economy does not have to disadvantage remote rural communities or lead to more funding going to larger rural cities and towns. Funding will still only flow to those communities eligible under population criteria standards, but a new priority for projects that demonstrate collaboration would allow the broader regional strategies formulated jointly by urban, suburban and rural areas to be factored into funding decisions as long as resources are only going to eligible rural jurisdictions.

A model for incentivizing multi-jurisdictional and multi-sector collaboration without leaving behind those communities that do not want to or cannot collaborate is a funding bonus. An example is the U.S. Economic Development Administration's (EDA) very small but effective economic development district (EDD) planning program, which is the only national program that requires rural communities to think and plan regionally. The agency rewards local governments and grantees with a ten percent Federal bonus within its public works and economic adjustment assistance programs if they engage in multi-county planning and development. Those that do not engage in this process are still funded, but do not receive the bonus. USDA could be encouraged or forced to do something similar in terms of providing a more attractive grant/loan package to coordinated strategic projects. This model could also be adapted to USDA Rural Development's clientele by providing incentives for both multi-county planning and integrated planning among municipalities and unincorporated areas within a single county.

In my County of Brookings, South Dakota, through regional planning and innovative partnerships we created the South Dakota State University Innovation Campus, the first research park developed in the state of South Dakota. Sited on 125 acres, the Innovation Campus is located next door to South Dakota State University (SDSU).

The SDSU Innovation Campus provides a place where people and ideas come together in our region to combine the experience of university, business, industry and government in an environment that uses innovation and critical thinking to generate new ideas, promote research, entrepreneurialism and business mentoring—providing opportunities to keep our best and brightest in South Dakota.

The SDSU Innovation Campus is the product of the SDSU Growth Partnership, a 501(c)(3) nonprofit corporation whose partners include Brookings County, the City of Brookings, Brookings Economic Development Corporation, South Dakota State University, the South Dakota State Foundation and a State Representative. The county and city put up-front money, and the First District Association of Local Governments helped develop a business plan and grant application for EDA funding. These planning investments provided vital gap funding that helped make our regional vision a reality. The First District serves 11 counties and 75 communities within the counties of Brookings, Clark, Codington, Deuel, Grant, Hamlin, Kingsbury, Lake, Miner, Moody, and Roberts.

The site includes retail and support services. Local private developers have developed a 120 unit housing complex, the Innovation Village, on property adjacent to the park. The campus has walking, jogging and biking trails, and open green spaces, and is also accessible via public transportation. All of the private development on the innovation campus becomes a part of our local tax base.

The economic success story in Brookings County and our region, along with our innovation campus, clearly demonstrate that rural communities and institutions can make substantial progress by working regionally to achieve economies of scale, technical expertise, workforce pool and infrastructure financing to compete nationally and globally. The project has helped Brookings County and our region prosper. In fact, we enjoy one of the lowest unemployment rates in the country at around four percent. Most importantly, we are seeing spin off businesses from this innovation campus in the surrounding counties that are even more rural than Brookings County.

However, rural unemployment in the nation has remained high overall, despite the strong performance of the agricultural sector. Other rural communities would like to start planning and implementing regional strategies but do not have the funding to get started. Reorienting USDA towards a regional approach would provide needed resources to assist rural communities with seed money for planning, or as in our case, additional funds to expand our regional development efforts. In our region, we could expand the principles of the innovation campus project to additional parts of our region. Our county could also link to other efforts such as our regional farmers' market initiative, our Seed Technology Laboratory, and our youth learning center.

This new approach will save time and money for rural counties who have trouble navigating the array of stove piped programs at USDA. The vast majority of counties and municipalities in our nation lack the financial, human and technical resources individually that are required to compete with urban centers. These same rural communities lack the expertise needed to navigate and apply for the alphabet soup of excellent programs offered by USDA. These communities are not asking for a free lunch. However, they do need a jump start. Federal investments that encourage regional planning activities and provide seed funding for implementation can help provide rural business and community leaders with the leverage they need to begin something that creates wealth and jobs.

Rural Stakeholders Are United in Support of Rural Development and Ideas for Improvement of This Critical Agency

The Campaign for a Renewed Rural Development is a collaboration of 35 national organizations with a strong interest in the future of small town and rural America. NACo chairs this campaign which works collectively to support rural development programs and strategies that promote rural prosperity. The members of the campaign represent a diverse cross-section of rural and small town America. The campaign is focused on advocating for a comprehensive rural development title, in which Rural America will gain increased access to important seed capital, infrastructure financing, professional expertise and support services. A majority of the campaign came together to recommend six key priorities that will strengthen USDA Rural Development investments. I have summarized these points below.

Clarify Mission of USDA Rural Development—In addition to its traditional and vital role as a lender of last resort helping rural individuals and communities, the agency going forward should be viewed as a crucial partner in forging new economic opportunities that help rural people and places thrive.

Provide Flexibility and Incentives for Regional Collaboration—Rural Development must be reoriented, through statutory language, to give its programs greater flexibility to encourage the local and regional partnerships that are currently encouraging innovation in rural regions across the country.

Maintain Rural Development Investments—We recognize the extreme fiscal challenges under which the farm bill will be written and the pressure to cut mandatory funding. We urge Congress and the Administration to work to ensure that rural investments, such as USDA Rural Development, do not receive disproportionate cuts. Rather we urge you to maintain mandatory funding for Rural Development in the 2012 Farm Bill.

Maintain and Improve Technical Assistance—We support the reauthorization of technical assistance programs due to their success in leveraging outside resources, minimizing the risk of default on Rural Development loans, and developing the capacity of local leaders to manage large projects. In addition, we urge you to authorize a technical assistance set-aside for the Essential Community Facilities program. We also urge you to bolster Rural Development staff and TA providers' capacity to assist rural communities and regions with comprehensive economic development planning.

Improve Metrics and Accountability—We urge Congress to require USDA to increase its use of outcome-based evaluation metrics and to evaluate the community and system wide impacts of its programs on the economy of rural communities and regions.

Streamline Application and Reporting Processes—We urge Congress to provide authorizing language that demands a culture of continuous evaluation of current best practices that streamline application and reporting processes. These processes should be adjusted to meet the staffing and capacity challenges of all rural communities and businesses, especially the most rural communities and businesses.

I'm excited to see this level of unity in rural America. We need it if we are to overcome the economic challenges that face us. All the panelists today represent stakeholders in rural America that are critical to rural counties. I've already mentioned our multi-county collaboration through the First District Association of Local Governments, which is a regional development organization. I also am proud of our work in eastern South Dakota to collaborate with our business community, our farmer and ranchers, our cooperatives, our nonprofits and churches, our colleges and universities and our foundations, among many others.

In conclusion, it is clear that rural people and places are increasingly operating in dynamic regional economies and USDA Rural Development programs must be reshaped to promote and give greater flexibility to these successful regional approaches and local collaborations. Second, Congress and the Administration should work together in a bipartisan manner to make rural development programs a priority within farm bill reauthorization. NACo seeks to be your partner in this endeavor. We promise to work with you to streamline and improve existing programs so that investments in rural America pay even bigger dividends in the future.

Thank you again, Chairman Johnson, Ranking Member Costa and Members of the Subcommittee for the opportunity to testify this afternoon on behalf of NACo on these critical rural development issues. I appreciate your time and interest. I look forward to answering any questions.

The CHAIRMAN. Thank you, Mr. Larson.

Ms. Mazer?

STATEMENT OF LEANNE MAZER, EXECUTIVE DIRECTOR, TRI-COUNTY COUNCIL FOR WESTERN MARYLAND, FROSTBURG, MD; ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Ms. MAZER. Thank you, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for the opportunity to be here today. My name is Leanne Mazer, and I am the Executive Director of Tri-County Council for Western Maryland, located in Frostburg, Maryland. I would respectfully like to make three points.

First, Mr. Chairman, the mission area of USDA Rural Development is critical to our nation's rural and most distressed areas as they work to develop the fundamental building blocks necessary to be economically viable and competitive. During challenging fiscal times, it is often easy to forget the real impact of these programs like USDA Rural Development. I would like to briefly tell you about a couple examples of the work we have accomplished with these programs in my region.

With the financing package that included a USDA loan, one of our counties was able to construct a new water line that opened up a new business park for advanced manufacturing. Very soon thereafter, cabinet manufacturer American Woodmark moved in immediately creating 120 new quality manufacturing jobs. The company has continued to grow and now employs about 330 people.

In 2005, our agency assumed the management of an IRP fund from another organization within our region. This offered us one other financing tool to provide access to capital for our business community. Recognizing that our region had a need for professional hands-on business counseling and technical assistance for our local entrepreneurs and businesses, we were also successful in securing two USDA Rural Business Enterprise Grants in the following 2 years. During the period of IRP investments, our Council assisted 196 businesses and resulted in $12.7 million in projects developed.

Tri-County Council's business counselor assisted one of those companies in developing a business plan with financial projections to support a much-needed manufacturing facility expansion. The company's growth was limited by their existing plant size. We helped that company successfully put together a financing package that included $400,000 in gap financing from our agency with a total project cost of just over $2 million. The company continues to grow today and has been able to increase their annual sales substantially.

Second, Mr. Chairman, our nation's rural communities are facing enormous pressure from global competitors. Therefore, it is imperative that USDA Rural Development has the policies, program tools, and flexibility to assist rural communities and regions. We believe that this can be achieved by USDA facilitating regional collaboration and strategic investments through existing regionally focused, locally driven frameworks like the U.S. Economic Development Administration's Comprehensive Economic Development Strategy, or CEDS, process.

Just last week, our region was pleased to see the completion of a major project that could demonstrate how we use our CEDS locally. The City of Frostburg utilized a USDA water and waste disposal loan, along with other Federal, state, and local programs and partners to complete a major water distribution project that provides reliable clean water to over 5,300 homes and businesses. The project also included a hydroelectric plant that now generates electric savings for the city.

Because our region made this project a priority many years ago during our CEDS and planning processes, all three of our counties and all 24 municipalities were committed to its success. Therefore, I would urge a greater recognition and support of existing regional development strategies, including the EDA CEDS that could assist the Rural Development in making sound decisions with their investments.

Finally, Mr. Chairman, USDA rural development applications, policies, and reporting requirements should be streamlined to reflect the scale of the rural investments, emerging needs, and opportunities in rural regions. Western Maryland is much like other rural regions across America. Communities and small businesses in our region often lack the staff capacity to apply for and manage USDA rural development programs. This is unfortunate since programs like USDA rural development were established specifically for these communities.

Rural Development should consider a process to identify the current concerns felt by their customers and enter into a program of continuous evaluation and improvement for the purposes of maximizing program impact. Rural Development should also consider establishing stronger connections to entities like regional development organizations and counties to provide technical assistance to rural communities, small businesses and entrepreneurs.

In closing, I urge your continued support of the USDA rural development programs and funding in the 2012 Farm Bill. Thank you again for the opportunity to be here today and I would welcome any questions.

[The prepared statement of Ms. Mazer follows:]

PREPARED STATEMENT OF LEANNE MAZER, EXECUTIVE DIRECTOR, TRI-COUNTY COUNCIL FOR WESTERN MARYLAND, FROSTBURG, MD; ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Thank you, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for the opportunity to testify today on the 2012 Farm Bill's rural development title. Let me start by thanking you and the Members of the Subcommittee for your leadership and interest in the rural development mission area as part of the 2012 Farm Bill reauthorization process. The broad portfolio of USDA Rural Development programs for business development, infrastructure, housing, value-added agriculture production and marketing, regional strategic planning, and broadband deployment are essential to the long-term economic competitiveness and quality of our nation's rural communities.

My name is Leanne Mazer. I am the Executive Director of the Tri-County Council for Western Maryland, headquartered in Cumberland, and a Past President and Board Member of the National Association of Development Organizations (NADO). My background includes nearly 2 decades in regional and local economic development, including more than twelve years in my current position.

The National Association of Development Organizations (NADO) represents the national network of 540 regional development organizations. As public-based organizations governed primarily by local elected officials and other community leaders, the members of NADO focus on improving the economic conditions and quality of life across America's local communities through regional strategies, partnerships and solutions. In addition, NADO is a member of the Campaign for Renewed Rural Development, a broad-based coalition led by our partners at the National Association of Counties.

The Tri-County Council for Western Maryland is a regional economic development agency serving Allegany, Garrett, and Washington counties. We provide a variety of programs and services within our region, and serve as a regional planning and development organization under the guidelines of both the Appalachian Regional Commission (ARC) and the U.S. Economic Development Administration (EDA). In addition to our professional and technical assistance programs for local governments, businesses, and nonprofit entities, our organization operates several small business development loan funds, serves as the state data center affiliate for Western Maryland, and offers Geographic Information System (GIS) services for our local communities and partners.

Mr. Chairman, I will focus my remarks today on three key areas related to USDA Rural Development and the future of our rural regions and communities:

1. **The mission area of USDA Rural Development is critical to our nation's rural and most distressed areas as they work to develop the fundamental building blocks necessary to be economically viable and competitive.** This includes basic yet essential investments for infrastructure and utilities, housing and community facilities, and access to capital and technical expertise for our businesses and entrepreneurs.

2. **With rural regions now facing intense global competition, we need to ensure USDA Rural Development has the policies, program tools, and flexibility to assist rural communities with cutting-edge, asset-based regional development strategies and investments.** This will take a new level of sophistication and capacity within our rural regions and at USDA Rural Development. Specifically, we need to foster stronger public-private-nonprofit partnerships, prepare our rural workforce with new skills, and develop modern infrastructure and community facilities, which can be achieved more efficiently and cost effectively by leveraging and investing in existing regional development strategy processes such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy (CEDS) framework.

3. **USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations.** While retaining necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help rural

communities pursue regionally-based, locally-driven community and economic development strategies.

First, Mr. Chairman, the mission area of USDA Rural Development is critical to our nation's rural and most distressed areas as they work to develop the fundamental building blocks necessary to be economically viable and competitive. With USDA's assistance over the decades, rural communities across the nation are now better positioned to pursue regional asset-based and innovation-focused development strategies that are resulting in new job and local wealth retention opportunities.

However, continued gains are increasingly at-risk due to Rural Development funding cuts in recent years. Since FY 2010, the Budget Authority for the USDA Rural Development mission area has been cut by nearly $733 million, including reductions of $102.46 million in the Rural Utilities Service, $333.93 million in the Rural Housing Service and $75.52 million in the Rural Business-Cooperative Service. Over the past 2 years, water and waste water grants have been cut $41.61 million, community facility grants are down 44 percent, and support for rural microenterprise lending and technical assistance was eliminated for the current fiscal year.

While some of these cuts have been masked by massive increases in USDA's direct loan and loan guarantee program levels (especially due to the historically low subsidy level for the community facilities program), the reality remains that the most distressed rural communities will struggle to make the improvements necessary to remain economically viable. In addition, the programs hit hardest by recent budget cuts include the agency's smaller, more flexible business and community assistance programs, such as Rural Business Enterprise Grants (RBEG), Rural Business Opportunity Grants (RBOG), and the Rural Community Development Initiative (RCDI). Combined, these three community and economic development programs have been cut more than $17 million, or 37 percent, over the past 2 years. The program level for the Intermediary Relending Program (IRP), an important access to capital resource for rural businesses and entrepreneurs, is also down 48 percent over the same period.

Other key Federal economic development programs that specifically help small towns and rural communities are also facing substantial cuts. Compared to FY 2001 levels, project funding for the U.S. Economic Development Administration is down $181 million (42 percent reduction) and HUD's Community Development Block Grant (CDBG) program is down $1.46 billion (44 percent cut). This translates into nearly $620 million in reduced grant investments for vital community and economic development infrastructure each year since half of EDA's investments are typically in rural areas and 30 percent of HUD's CDBG money is targeted, by law, to small cities and rural areas.

In the current budget climate, we understand that most of these core programs for basic yet essential investments for infrastructure and utilities, housing and community facilities, and access to capital for rural communities are unlikely to be restored to their peak levels. This makes USDA Rural Development programs and policies even more essential. While we recognize this Committee is not directly responsible for the annual appropriations for USDA Rural Development, the Committee can ensure the remaining programs and resources are used in a more strategic and performance-driven manner.

During challenging fiscal times, it is often easy to get caught up in the numbers and forget the real impact Federal programs like USDA Rural Development have on the communities and people across America. In one of my counties, we recently completed a significant project of regional importance that would have been impossible without assistance from USDA Rural Development. With a USDA loan, Allegany County, working with state and local partners, was able to construct a new water line to the new Barton Business Park for Advanced Manufacturing, which was developed to create manufacturing and technology jobs in an area where the unemployment rates are consistently higher and the per capita incomes are consistently lower than the national and state averages.

This project was essential to ready the facility for tenants and soon thereafter, cabinet manufacturer American Woodmark moved in. The company, readily positioned to expand its operations to address rising product demand in the U.S. Northeast and Mid-Atlantic regions, immediately created 120 new quality manufacturing jobs. They continue to grow and now employ approximately 332 employees.

In 2005, our agency assumed the management of an IRP fund from another organization within our region. While we are still working with USDA and our clients to clean up and close out previous loans, we are making progress in awarding newer loans and investments. Recognizing that a pressing need in our region was more professional, hands-on business counseling and technical assistance for our local entrepreneurs and businesses, we also secured two USDA Rural Business Enterprise Grants (RBEG) to assist our small business community, particularly those that were potential or existing loan clients. During the 2 year period with our RBEG investments, we assisted 196 businesses with business counseling and other technical assistance. Among the results, we invested more than $1.8 million in gap financing to help our partners secure approximately $12.7 million in new lending and investments. It is worth noting that we provided more than a 50 percent local match for both these USDA awards.

One of the businesses that the Tri-County Council helped during this time period was M&W Ventures, LLC, a Washington County small business engaged in electric motor sales, repair, and installation, whose growth was limited by the size of their existing plant. Our organization assisted the company with a business plan to support the expansion of the plant facility that was needed for overall growth and increased sales. Our organization was able to provide $400,000 in gap financing to support a total package of $2.1 million. The company continues to grow, expanding their annual sales to $3.9 million.

Second, Mr. Chairman, our nation's rural communities are facing enormous pressure from our global competitors. At the same time, our rural regions have the assets and drive to compete and take advantage of new opportunities. Therefore, it is imperative that USDA Rural Development has the policies, program tools, and flexibility to assist rural communities and regions with cutting-edge, asset-based regional innovation strategies and investments.

To be successful in the modern economy, rural entrepreneurs and communities must be connected to global and domestic markets—digitally, institutionally, and physically. This will take a new level of sophistication and capacity within our rural regions and at USDA Rural Development. It will also mean improving Federal interagency collaboration, fostering stronger public-private-nonprofit partnerships, preparing our rural workforce for new challenges, and developing more modern infrastructure and community facilities. We believe this can be achieved more efficiently and cost effectively by facilitating regional collaboration and strategic investments through existing regionally focused, locally driven planning frameworks such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy (CEDS) process.

One of the many specific ways the Tri-County Council supports regional development is through our long partnership with the U.S. Economic Development Administration (EDA) and the Appalachian Regional Commission. The EDA, through its national network of 380 economic development districts, provides vital seed capital and matching funds for local communities to craft and implement regional economic development strategies. As such, the vast majority of rural America is supported by a Comprehensive Economic Development Strategy (CEDS).

The CEDS is an invaluable framework for identifying the economic conditions, shared development goals, and the regionally impactful investments that will enhance the competitiveness of rural America. Because they are regionally based, locally owned strategies, the CEDS would provide USDA with an established system to help make more strategic investments. In addition, USDA should be given additional resources and authority to assist rural counties and regions with more robust support for developing and implementing in-depth rural asset mapping, key industry analysis, and regional innovation readiness assessments that build upon the groundwork of the CEDS process.

In Maryland, we have been embarking on several regional projects that demonstrate the importance and power of connecting often disparate issue areas for the purposes of regional development. Last week, we were pleased to see the completion of a major project that demonstrates how we used our CEDS to examine existing assets, identify and prioritize local needs, and successfully finish a project of regional significance. The City of Frostburg, in partnership with other Federal, state, and local partners, used a USDA Water and Waste Disposal loan (combined with funding from the Appalachian Regional Commission) to complete a major water distribution project that provides reliable, clean and abundant water to over 5,300 homes and businesses.

The USDA loan was used for the replacement of raw water transmission mains, which enabled the City to pump enough water to meet the needs of the existing water service area. This allowed the hydroelectric plant, which generates electricity to offset energy used, to pump raw water from the Piney Dam source under the terms of a net metering agreement with Potomac Edison. The hydroelectric plant, which began production in December 2011, produces between 55 and 70 kW with a current estimated annual value of $29,000. The new and larger raw water transmission mains now provide the City with the capability to efficiently pump more water and generate additional electrical savings.

This one water project was 30 years in the making and required extensive relationship building and consensus across a spectrum of often divergent stakeholders. Yet, because our region made this project a priority many years ago through our CEDS process, all three counties and 24 municipalities were committed to its success. Our hydroelectric plant is now a key part of our region's economic development infrastructure.

Our organization is also involved in a major initiative to bring broadband to rural and under-served portions of the state through the Maryland Broadband Cooperative. We assisted in creating the first regional community foundation in our part of the state. In addition, we helped facilitate improved communications and coordination among various educational institutions within our region, with a major emphasis on preparing our youth and students for today's economy.

With fewer Federal resources, including grant dollars and staffing, it is becoming more essential for USDA Rural Development to make more strategic and performance-based investments that are tied to regional and local plans and priorities. Instead of public, private and nonprofit sector leaders working together on our asset-based opportunities and needs, we are often forced to fit our community and economic development initiatives into USDA's program stovepipes and funding priorities. I would urge a greater recognition and support of existing regional development strategies, including the EDA CEDS, that could assist Rural Development in making sound decisions regarding their investments. This would also require making USDA's rural development programs more flexible and geared toward addressing regional and local priorities.

Finally, Mr. Chairman, USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of the rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations. While retaining necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help small towns and rural areas pursue community and economic development growth.

Western Maryland is much like other rural regions across America. Communities and small businesses in this region often lack the staff capacity to apply for, and manage, USDA Rural Development programs. This is unfortunate since programs like USDA Rural Development were established specifically for the purpose of assisting rural communities, especially those with severe distress and poverty.

Every Federal program should be adjusted to meet not only the needs, but the capacity of all rural communities and businesses. In order to maximize access to the services and programs that rural regions need to create conditions for job growth, Rural Development should strongly consider a process to identify the current concerns felt by their customers and enter into a program of continuous evaluation and improvement for the purposes of maximizing program impact. Rural Development should also strongly consider establishing stronger connections to entities, such as regional development organizations and counties, to provide technical assistance to rural communities, small businesses and entrepreneurs.

In closing, I urge your continued support of USDA rural development programs and funding in the 2012 Farm Bill, especially those built around regional, asset-based development strategies and investments that create conditions for quality job growth. USDA Rural Development is an essential partner and funding source for rural people and places. It is also a vital tool for regional development organizations, such as the Tri-County Council, and our local government and community partners as we strive to position our communities for the future.

Thank you again, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for the opportunity to testify today. I would welcome any questions.

The CHAIRMAN. There will be questions. I call on the Ranking Member, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman.

Former-Secretary Conner, thank you for your service to our country. And you talked about the Value-Added Producer Grant. As I understand we have mandatory funding up until the Fiscal Year 2017 if I am correct. I think it has been successful not only in helping cooperatives overcome constraints on necessary capital to innovate and process new commodities and product packaging that we use to export around the world, but initially you mentioned that cooperatives are in the best position to efficiently spread the benefits to a larger number of producers. However, I was looking at some of the numbers since the 2008 Farm Bill and after 298 recipients of the Value-Added Producer Grants, only 26 of them went to cooperatives. Why did so few go to them if, according to your testimony, you are in the best position to do them?

Mr. CONNER. It is a great question, Mr. Costa, and let me just say I think your numbers are accurate and I would further add that I believe there was a period of time where 80 percent of the Value-Added Producer Grants were being used by cooperatives. So there is a substantial decline that has occurred there over time. And as I said in my oral testimony, I shared with you a firsthand experience we had where, when the program funds were available, we notified our membership of that process. And again, as I stated——

Mr. COSTA. I know but I am just trying to get a sense of why there has been the decline and what might be done because I am a big supporter of cooperatives.

Mr. CONNER. Yes.

Mr. COSTA. I have a number of cooperatives, dairy and food cooperatives that have been long—not only in California but throughout the country. And I think value-added is very important. That is why I would want to support the grants. I am just trying to figure out what is going on.

Mr. CONNER. Well, let me get right to the point, then. The response from many when these funds became available was that the application process required too many resources on their part for a relatively small benefit——

Mr. COSTA. All right——

Mr. CONNER.—and it was not worth it for them——

Mr. COSTA.—let me segue to the other comments I made in my opening statement, and that is for all three of you, my concerns about rural definitions. I wonder whether or not any of the three of you would speak to ideas that you could suggest to the USDA on how Congress could better define *rural* and provide the agency flexibility it needs to address needs throughout the nation in terms of rural communities because, as I said, I don't think one-size-fits-all.

And in some areas, for example, again we all know our own situation best but in California we have tried to encourage smarter growth in our cities in part to protect our agricultural lands. We have asked cities not to spread on some of our prime ag land. And as a result of that, it has created population densities under the definition of *rural* that now then comes back and penalizes us. This has been something that is not new, wresting with the definition of *rural*. Does the gentleman from NACo and the other gentlelady have any comments that you would like to make as it relates to a *rural* definition?

Mr. LARSON. Well, Ranking Member, I think we share the same dilemma that you share. And we don't have at this moment a better idea for the definition of rural, albeit we understand and we appreciate fully the experience you have in your home county and that you are not the only situation like that across the country where you see some growth but rural areas are attached. But the best I can say is that I share the dilemma at this moment and I don't have the perfect answer because as we approach the regionalization of our efforts to better expend the Federal dollars that are available to us——

Mr. COSTA. Okay.

Mr. LARSON.—we take in more people——

Mr. COSTA. Ms. Mazer, do you a comment, suggestion?

Ms. MAZER. Ranking Member Costa, NADO is a broad-based organization, too, so I really can't comment as far as I am not in a position to represent a definition, a population number to define *rural* but I can talk about my——

Mr. COSTA. I am just looking for ideas.

Ms. MAZER. I can talk about my region for a little bit. We have three counties I mentioned, 24 municipalities and a total population of about 250,000. Our smallest community is about 80 citizens and we have two cities that one is right at the threshold at 21,000 for Community Facilities Grants, and our other largest city is 37,000 in population. While we see the struggles of our small towns, we also see the struggles in our largest city. They are different struggles. And we use regional planning and the process of continuous regional planning where we bring our region's leaders together on a voluntary basis several times a year every year on a continuous basis to try to see how we can address those issues that they are all facing, those struggles they are all facing from both ends of the population spectrum.

I will tell you that being said, when we put those leaders in the room, our elected officials, our chambers of commerce, our business people, our education leaders, they will come to consensus and they do look at how we can make the best progress and the most progress for the region.

Mr. COSTA. Yes, and I think your example is not unusual compared to all the districts we represent. Thanks. My time has expired but just for the Members' information, Fresno County is the largest agricultural county in the nation, over $6 billion a year. But the City of Fresno now has over half a million people in it, so we are the fifth-largest city in the state, and because of that fact, even though we are the number one agricultural county in the nation in terms of farm gate receipts, we are obviously very much handicapped by the 15 cities that surround different parts of Fresno County and the small hamlets that are not incorporated. Anyway, that is part of the dilemma we are dealing with.

The CHAIRMAN. Thank you, Mr. Costa.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. And Commissioner Larson, I listened to what you said and, if we keep doing what we are doing, we are going to get what we got. I guess my fear is—and Members of Congress—if we keep doing what we are doing, we might lose what we have in America. And I have just a simple question. You are a county commissioner so you are out there where the rubber meets the road with the American citizen. Do you have to balance the budget in your county on an annual basis?

Mr. LARSON. Yes, we do.

Mr. SCOTT. What would happen if you didn't balance it on an annual basis?

Mr. LARSON. Well, obviously the answer would be that over a continued time frame the ultimate route would be bankruptcy.

Mr. SCOTT. Yes, sir. I tell you, I have found that local people like yourself do a much better job with managing tax dollars than we do up here in Washington, so I want to thank you for coming up here and testifying. And I do hope that, Mr. Chairman, we are able to get more of these decisions made at the local level where the rubber meets the road. Thank you for what you are doing.

The CHAIRMAN. I thank you sincerely. Thank you.

Mr. SCOTT. I yield back the remainder of my time.

The CHAIRMAN. Thank you. The gentlelady from Alabama, Ms. Sewell.

Ms. SEWELL. Thank you, Mr. Chairman, Ranking Member Costa, and Members of the Committee. I thank you witnesses for your testimony.

The idea of promoting a regional approach to rural development has been promoted by the USDA and encouraged by Secretary Vilsack in his Regional Innovation Initiative which sets aside significant funds across the rural development programs for regional projects. I have the pleasure of representing my home district, which includes a lot of rural areas of Alabama and we are a big benefactor of the Delta Regional Authority. I am very supportive of the regional approach to better leveraging limited resources to better impact both our rural communities directly as well as infrastructure development that really helps the whole communities as a whole.

However, one concern that is shared by some is how a more regional approach will adversely impact those rural communities that are not a part of, or cannot, or do not have the ability to be a part of regional planning because of the dispersed nature of those communities. Please elaborate on some of the benefits and challenges associated with a more regional focus on rural development. And how would you work to overcome any of these identified challenges to a regional approach for communities that are more spread out? And I open that up to all three witnesses.

Mr. LARSON. Well, ma'am, I approach it in our discussions that the regional concept is a good way to go to involve communities. And regions are about as difficult to define as rural probably, but for a specific project you could have a large region, another project is a smaller region meaning a group of communities or citizens have to work together to create the project, that the project is designed to create a better quality of life for beyond just one small community always understanding that in rural America we have remote areas. And this type of cooperation and collaboration is probably impossible. And those people should then have the same opportunity to apply as a regional and be given the same type of preference.

Ms. SEWELL. Yes, sir. Any other comments?

Ms. MAZER. No, I would agree with that.

Ms. SEWELL. When we are talking about limited resources, rural development—and I know it is spearheaded by Doug O'Brien for Secretary Vilsack and he does a remarkable job of being attentive to rural communities. But I would be interested in hearing your perspective as to what rural development programs have proven the most effective and which programs have proven least effective. In this kind of economic environment, it is always important to listen to those people who are directly impacted and actually try to use those programs directly. So I would be interested in knowing which rural development programs have been the most beneficial.

Mr. CONNER. Congresswoman, in the material that I submitted for the record I gave examples of three different co-ops that have used the Value-Added Producer Grant Program, which is a matching public-private program to bring about good things for their farmer-owners. Probably the best example that we put forward is one of Blue Diamond Almonds——

Ms. SEWELL. Yes.

Mr. CONNER.—where literally these funds are being used for market development and this is an enormous growth industry in the State of California. In a state where other industries are not necessarily growing, this is a remarkable growth story. A big part of it can be attributed to these value-added grants.

Ms. SEWELL. Any suggestions as to programs that have been less effective? And I would obviously love to hear from our commissioner since you are on the frontlines of programs that have been effective for rural development.

Mr. LARSON. Well, ma'am, the programs that are most effective and most needed in rural America—I speak nationwide—are always references to water, wastewater, broadband——

Ms. SEWELL. Infrastructure——

Mr. LARSON.—and, yes, infrastructure and then rural facilities and specifically those to accommodate healthcare. In rural areas we need a place that we can treat someone until the emergency facilities are there whether it be helicopter, ambulance, whatever——

Ms. SEWELL. Absolutely——

Mr. LARSON.—to—critical care.

Ms. SEWELL. Yes.

Mr. LARSON. And the broadband is going to have the impact on rural America just like electricity did.

Ms. SEWELL. Great. Well, thank you all. I yield back the rest of my time.

The CHAIRMAN. Thank you. I might mention to the Members of the Subcommittee it is my hope, goal, to make sure we get both panels in and the Subcommittee hearing concluded before we go to the Floor so we don't have to truncate the process. I am not trying to speed anybody up. It is a lot more instructive I think when we can go straight through.

With that, I call on the gentlelady from Missouri, Mrs. Hartzler.

Mrs. HARTZLER. Thank you, Mr. Chairman. And I would add my comments to the Ranking Member thanking you for your service and wishing you well and saying it has been an honor. It is an honor to serve with you here.

I would like to start with Mr. Conner. Your testimony was very interesting how you pointed out that there are 88 programs administered by 16 different Federal agencies specifically targeted at rural development and that consolidation is warranted. I was just wondering do you have some examples of some specific agencies or departments or programs that you think would be a good thing to consolidate?

Mr. CONNER. Well, Congresswoman Hartzler, let me just answer your question this way. Obviously, we believe that the U.S. Department of Agriculture Rural Development is the right place and they are the people they have, if you will, boots on the ground out in the field to actually successfully administer these programs. And so in that process we would certainly strongly encourage a continued relationship with that agency that has the people out there who are in the rural communities, know the projects, know who is behind them, know the quality of those projects. And I am not sure that exists with all of the agencies that I mentioned but we would certainly encourage continued use of the people with boots on the ground.

Mrs. HARTZLER. Can you give me an example of a program that is in a different agency that is also in USDA that you think we could pull back totally under USDA's jurisdiction?

Mr. CONNER. Well, pulling back totally probably is farther than what I am prepared——

Mrs. HARTZLER. Consolidating.

Mr. CONNER.—to give some good advice for you, but, this Committee can explore a number of different opportunities in the housing programs that I have mentioned with the Value-Added Producer Grants. These are things that are occurring elsewhere as well and we have found these programs again, we have offered criticisms but yet, we want to continue to see them operated and funded through USDA Rural Development.

Mrs. HARTZLER. Great. Thank you very much.

Mr. Larson, several of you have mentioned the importance of infrastructure grants and the loans to the rural communities. And certainly as I travel around my district that is something that is very important and is needed with wastewater and water treatment facilities, especially as it relates to the EPA's changing rules and specifications, older infrastructure, whether it be sewer lines or water lines in these small towns, and they rely on these loans.

I was just wondering do you have an idea of the amount of need that is out there, dollar-wise, for this type of infrastructure *versus* how much money is available currently for these programs?

Mr. LARSON. No, ma'am, I do not have a dollar estimate for you but I can sympathize and agree with your comment, the fact that there is a great need out there in rural America and there is going to be a continuing need if we hope to grow and expand the rural economy with value-added projects and so forth because we need these other types of important infrastructure to facilitate those communities that are fortunate enough to have this type of economic development happen.

Mrs. HARTZLER. Yes. These small towns just don't have the money that it takes to upgrade their sewer plants or to do what needs to be done according to the regulations. It is putting them in a very difficult position. And so I was just wondering if you had any thoughts on that. So I will withhold further comments due to time, but thank you, Mr. Chairman. Thank you.

The CHAIRMAN. Looking at the panel here, I always wonder what one-party rule would be like. Did you ever see the Woody Allen movie?

I would then recognize the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. And I join my colleagues on also saying thanks for your leadership.

Ms. Mazer, you mentioned the importance of preparing our workforce with new skills in your testimony. What specific farm bill programs do you support and believe help with this?

Ms. MAZER. I am not sure of a specific answer to that as far as workforce skills from actual Community Facilities. We have used Community Facilities loans and grants in building one of the first new high schools in our county in 50 years. We could talk about it from the bricks-and-mortar and infrastructure type of perspective but we could also talk about the impact of regional planning and truly looking regionally.

And one of the examples that I can share from my region is, again, we are a regional entity made up—our board is made up of county commissioners, educators, chambers of commerce, business leaders. Our educational institutions had for a long time professional staff an association. There are 3 K–12 schools. There are three community colleges, a state university, and then a University System of Maryland, and they approached us because we were the regional platform. They were struggling with maintaining staff so we took over the management of the consortium. We now have a virtual educational consortium where we can bring those leaders together to talk about the educational needs. They can work together, they can pursue joint opportunities, and it is also a direct link, then, between economic development and education.

Mr. THOMPSON. So what is the tie then within your model between—obviously it sounds like you are blessed with, for a rural region you are blessed with different educational entities——

Ms. MAZER. Yes.

Mr. THOMPSON. Is there a good solid tie back to the rural employers so that their workforce needs are clearly understood, constantly monitored, and that is kind of that need is what drives what you do with that area?

Ms. MAZER. Yes, absolutely. There is a very close connection. We work together very closely. We also have an organization made up of private sector CEOs and in Allegheny County in the center of our region it is called the Greater Cumberland Committee. We have the Greater Hagerstown Committee in Washington County. The Greater Cumberland Committee actually has a program where they bring businesses and our educational community together as well.

Mr. THOMPSON. All right. Thank you.

Now, Mr. Conner, can you discuss the success of the farm cooperatives and what kind of benefits that they tend to provide rural communities and American agriculture, how they differ from other businesses? And with those cooperatives, I am assuming these are strongly member-driven, and how do we make sure that—I have heard a lot of discussion especially on the dairy side of member concerns that are member-driven but they feel like they don't have a lot of input. So how does that work in terms of how can we assure that our farm cooperatives are strongly member-driven?

Mr. CONNER. Well, Congressman Thompson, let me just answer the question this way if I could. I do believe our farmer-owned cooperatives are member-driven because obviously those co-ops are managed by a board of directors that for the most part is elected by those farmer members of that cooperative. In my case I have never observed a circumstance where those farmer leaders were shy about making their views known if they thought the direction of the co-op was headed different than what they preferred. You know, things change pretty rapidly again because the people that own the co-op, the people that vote on the leadership, on the management of that co-op are indeed the very farmer members who make up that co-op and that creates a system that is very, very responsive to those farmer members.

Mr. THOMPSON. Okay, thank you.

Mr. Larson, which rural development program do you think in your opinion has the best return on investment in terms of putting Federal dollars through the farm bill into rural economic development program? Which one do you think has the best return on investment coming back for the taxpayers?

Mr. LARSON. Well, I am glad that you review them as investments because that is what they are.

Mr. THOMPSON. Sure.

Mr. LARSON. They are an investment, not an expense. And I would have to say that in my opinion that good water and wastewater treatment facilities are very important to rural America. And I don't mean just small towns but our rural water systems that serve the rural areas.

Mr. THOMPSON. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And thanks for your comments here on the panel. I really appreciated that.

With that, I don't believe there is any second round of questions. I appreciate your being here, ladies and gentleman, and look forward to seeing you again.

Mr. LARSON. Thank you.

Ms. MAZER. Thank you.

The CHAIRMAN. Calling the second panel to come on forward, and while they are doing that, I want to indicate that along with the testimony that we are about to receive from the second panel, I have a letter submitted by the U.S. Telecom Association. Unless there is objection, I would ask that it be made part of the record. So ordered.

[The information referred to is located on p. 1671.]

The CHAIRMAN. And so the second panel, as they are assembling, is comprised of Frank Dunmire who is actually from my part of the state, was actually in Taylorville a week ago Saturday at the VFW. Mr. Dunmire is the Executive Director of the Illinois Rural Water Association on behalf of the National Rural Water Association; Mr. Robert Stewart, Executive Director of Rural Community Assistance Partnership; Mr. David Rozzelle, Executive Vice President of the Suddenlink Communications St. Louis on behalf of the National

Cable Telecommunications Association; and Mark Bahnson, CEO and General Manager of Bloomingdale Communications, Bloomingdale, Michigan, on behalf of the National Telecommunications Cooperative Association.

With that, then, we ask that the panelists speak in the order I recognized them. First, Mr. Dunmire.

STATEMENT OF FRANK DUNMIRE, EXECUTIVE DIRECTOR, ILLINOIS RURAL WATER ASSOCIATION, TAYLORVILLE, IL; ON BEHALF OF NATIONAL RURAL WATER ASSOCIATION

Mr. DUNMIRE. Thank you. Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, thank you for holding today's hearing. Like Mr. Chairman said, I am Frank Dunmire, the Executive Director of Illinois Rural Water Association and in the interest of time I will summarize my written statement. But before I get too far along into my testimony, I would like to thank Chairman Johnson for his service to Illinois. Since the Chairman began his career in the public service in 1971, he has been a champion of the farmers and the rural communities in our state and we wish him well as he leaves the House of Representatives and returns home to his family in Illinois. Thank you, Tim.

The Illinois Rural Water Association is a member of the National Rural Water Association on whose behalf I am testifying this afternoon. NRWA represents over 28,000 small rural water systems with which 1,100 of those are located in Illinois. Every day, rural water helps communities properly operate, maintain, and manage their water and wastewater systems, ensure compliance with the Safe Drinking Water Act, and when necessary, respond to natural disasters.

Last year, rural water provided over 155,000 hours of onsite assistance to rural water and wastewater systems throughout the country. Everyone realizes the importance of water. It is not until you turn on the tap and nothing comes out that you begin to understand how complicated life becomes without easy access to water. Water quality and affordability are important factors for businesses wanting to locate or remain in a rural community. Many times, job creation is directly tied to the availability of a good supply of potable water.

An excellent example of this is located in southwestern Illinois at the Prairie State Energy campus. This project created over 3,000 construction jobs and it will create 500 permanent onsite jobs and 800 support sector jobs. But what most people don't know is that all of the potable water supply needs for this facility are being met by Washington County Water Company, a water cooperative funded through Rural Development.

As a lender of last resort, USDA provides critical financing for water systems that are unable to secure commercial credit. In Fiscal Year 2011, USDA obligated over $1.3 billion in loans and grants to 695 water and wastewater projects. Eighty-two percent of those funds were used for projects in communities with populations of 5,000 or fewer. And even though over the last 72 years USDA has made over $30 billion in water infrastructure loans to communities that others would not, the lifetime default rate for this program is a meager 1.02 percent.

In addition to infrastructure financing, USDA's water programs also provides funding for technical assistance to rural communities. This onsite assistance provided by circuit riders and wastewater technicians is critical to ensuring that the rural communities have sustainable water and wastewater systems. We strongly encourage the Committee to reauthorize the Circuit Rider Program.

We believe the farm bill should maintain the water programs current policies, funding should be limited to rural communities who are unable to find affordable credit elsewhere. Funding should be targeted to rural communities with the greatest economic need and environmental public health challenges. And grants should be awarded based in proportion to a community's economic need.

We are aware of discussions to expand USDA loan and grant eligibility to more populous communities. We believe the water programs current focus on communities with populations of 10,000 or less is working. Currently, 82 percent of USDA's water infrastructure funding goes to communities with populations of a few thousand or fewer. Even though funding has been awarded to smaller and poorer communities, the current backlog is still over $3 billion. We do not believe anything is to be gained by increasing the pool of eligible communities for water infrastructure loans and grants. In fact, we are concerned this could result in few loans and grants for truly needy rural communities and that the increase in applications could place a substantial burden on a shrinking Rural Development field staff, thereby delaying all loan and grant approvals.

Mr. Chairman and Ranking Member Costa, this concludes my testimony and I will be happy to answer any questions at the appropriate time.

[The prepared statement of Mr. Dunmire follows:]

PREPARED STATEMENT OF FRANK DUNMIRE, EXECUTIVE DIRECTOR, ILLINOIS RURAL WATER ASSOCIATION, TAYLORVILLE, IL; ON BEHALF OF NATIONAL RURAL WATER ASSOCIATION

Chairman Johnson, Ranking Member Costa and Members of the Subcommittee, thank you for holding today's hearing. I am Frank Dunmire, the Executive Director of the Illinois Rural Water Association. Before I get too far along in my testimony, I would like to thank Chairman Johnson for his service to Illinois. As many of you know the Chairman, while still in law school, began his career in public service by winning a seat on the Urbana City Council in 1971. In 1976 he was elected to the Illinois state legislature and served there until he was elected in 2000 to represent the 15th district here in Washington. He has been a champion of the farmers and rural communities in our state during his time in Congress and we wish him well as he leaves the House of Representatives and returns home to his family in Illinois.

The Illinois Rural Water Association is a member of the National Rural Water Association (NRWA), on whose behalf I am testifying this afternoon. NRWA represents over 28,000 small rural water systems in all 50 states through its 49 rural water association members. Of those 28,000 member systems 1,100 are located in Illinois. Every day state rural water associations are helping rural communities throughout the country learn how to properly operate, maintain, and manage their water and wastewater systems; how to best ensure compliance with the Safe Drinking Water Act; how to protect their ground and surface water sources; and when necessary responding to natural disasters. Rural Water prides itself as being an organization that helps build capacity in rural America. When a community has a problem with its water and/or wastewater system, Rural Water assists the system operators in the identification and repair of the problem. We do not do the work for the community, but we help train their operators and teach them how to do it. Last year Rural Water provided over 155,000 hours (or the equivalent of over 17 years) of onsite assistance to rural water and wastewater systems. Rural Water also provided 3,500 hours of wastewater technician classroom training to nearly 15,000 individuals.

The rural development title of the farm bill historically has not received as much focus as other policy matters such as: direct payments, crop insurance, conservation, or nutrition. However, the rural development programs authorized by this Subcommittee in the farm bill will meaningfully impact the lives of millions of people—take water for example. USDA's water infrastructure and technical assistance programs are authorized in the farm bill. Everyone realizes the importance of water, but it is very easy to take for granted. It is not until you turn on the tap and nothing comes out, or your community is under a boil order, that you begin to understand how complicated life becomes without easy access to water. But the importance of access to safe, affordable, and plentiful drinking water is not only important in rural homes but also to rural businesses. Water quality and affordability are important factors for businesses wanting to locate or remain in a rural community. Many of the businesses related to agriculture that are located in rural communities (think food processing, meat packing, biofuel production, farm services facilities) need high quality and affordable water supplies. Rural water is important to the rural economy. Many times job creation is directly tied to the availability of a good supply of potable water. An excellent example of this is located in Southwestern Illinois at the Prairie State Energy Campus. Chairman Johnson and possibly other Committee Members are aware that this project alone created in excess of 3000 construction jobs and will create approximately 500 permanent on-site jobs. High paying jobs I might add. In addition to those 500 jobs it is estimated that an additional 800 support sector jobs will be created as well. BUT, what most people don't know is that all of the potable water supply needs for this facility are being met by Washington County Water Company, a not-for-profit water cooperative funded through Rural Development.

Perhaps as a representative of NRWA I am a little biased, but I believe that USDA's water programs are the most important for rural communities that this Subcommittee will address in the farm bill. As a lender of last resort, USDA provides critical financing for water systems that are unable to secure commercial credit. In FY2011, USDA obligated $1.379 billion in loans and grants to 695 water and wastewater projects. Eighty-two percent of these funds were used for projects in communities with populations of 5,000 or fewer. And even though over the last 72 years USDA has made over $30 billion in water infrastructure loans to communities that others would not, the lifetime default rate for this program is 1.02%. The metrics for this program are impressive, as are the demands for its funds. According to USDA at the end of FY 2011 there were 415 completed applications for which no funding was then available. It would have required an additional $1.5 billion in loans and grants to fund these projects. There were also an additional $3.3 billion in preliminary applications from rural communities. Many of the completed applications will be funded with FY 2012 funding, but the fact remains that the backlog for loan and grant funds currently exceeds $3 billion.

In addition to infrastructure financing, the USDA's water program also provides funding for technical assistance to rural communities that meet the eligibility requirements to be a borrower from Rural Development. As I mentioned previously, as one of USDA's technical assistance providers Rural Water provided over 155,000 hours of onsite assistance to rural communities last year. This onsite assistance, provided by circuit riders and wastewater technicians (and authorized in Section 306(a)(22) and 306 (a)(14) of the Consolidated Farm and Rural Development Act, respectively) is critical to ensuring that rural communities have safe, affordable, healthy drinking water and wastewater systems. The authority for the circuit rider program expires at the end of the fiscal year. **We strongly encourage the reauthorization of the circuit rider program.**

As the Committee considers whether changes to the authorizations for the rural water programs are warranted, the NRWA would urge caution. We believe the farm bill should maintain the water program's current policies: funding should be limited to rural communities who are unable to find credit elsewhere; funding should be targeted to rural communities with the greatest economic need and environmental/public health challenges; and grants should be awarded based in proportion to a community's economic need.

We are aware of discussions to expand USDA loan and grant eligibility to more populous communities. While there may be other issues within the Rural Development mission area, we believe the water program's current focus on communities with populations of 10,000 or less is working. Currently, 82% of USDA's water infrastructure funding goes to communities with populations of 5,000 or fewer, 64% goes to communities with populations of 2,500 or fewer, 51% goes to communities with populations of 1,500 or fewer, and 42% goes to communities with populations of

1,000 or fewer. Even though funding has been awarded to the smaller and poorer communities, as I mentioned earlier, there still is $3 billion backlog. We do not believe anything is to be gained by increasing the pool of eligible communities for water infrastructure loans and grants. In fact, we are concerned this could result in fewer loans and grants for truly needy rural communities and that the increase in applications could place a substantial burden on a shrinking Rural Development field office staff, thereby delaying all loan and grant approvals.

We are also aware of proposals that would expand water infrastructure grant eligibility for more affluent communities. Again, we support the policies underlying the water program and believe the current grant limitations are working.

Mr. Chairman, and Ranking Member Costa, this concludes my testimony. I appreciate the opportunity to appear before you this afternoon. I wish you luck in the days and weeks ahead as the Committee develops a new farm bill. I would be happy to answer any questions you may have. Thank you.

The CHAIRMAN. Thank you, Mr. Dunmire.

Mr. Stewart?

STATEMENT OF ROBERT B. STEWART, EXECUTIVE DIRECTOR, RURAL COMMUNITY ASSISTANCE PARTNERSHIP, WASHINGTON, D.C.

Mr. STEWART. Thank you, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for allowing me the opportunity today to discuss the importance of rural development programs and the upcoming farm bill reauthorization. My name is Robert Stewart and I am representing the Rural Community Assistance Partnership, a national nonprofit network of regional service providers that for over 40 years have provided onsite technical assistance and training services to rural communities in every state regarding water and wastewater facilities, waste disposal, affordable housing, and community economic development.

The importance of RD infrastructure programs to current rural economies and for future economic development cannot be overstated. In particular, rural water and wastewater utilities are the critical foundation upon which rural communities and families depend for their health, their livelihoods and their prosperity. Virtually all economic activity in rural America, whether it is farming, ranching, value-added commodity processing, oil and gas production, mineral activities, alternative energy pursuits, or tourism depend on sustainable rural communities and utilities. It has been RD programs that have provided rural America with vital infrastructure, business development opportunities, and a range of technical assistance programs that promote productive and sustainable economies.

RCAP works directly with RD staff in helping rural communities funding application requirements, implement proper management practices to ensure financial accountability and provide operational assistance. Due to a limited customer base and typically lower median income, many small rural communities are unable to finance major infrastructure improvements without some Federal assistance. Unlike larger communities that can access the municipal bond market or other private financing options, these small rural communities have turned to RD as a lender of last resort.

RD has responded by providing over 18,000 active water and sewer loans serving more than 19 million rural residents as previously mentioned with basically a nonexistent default rate. Although challenged by reductions in every state, RD staff continue to provide services that respond to local needs. Whatever the situation, rural community leaders benefit from being able to turn to a local RD staffer, an RCAP technical assistance provider, or a Rural Water Association circuit rider that they know and trust who is familiar with their system.

To build on these successes, the farm bill should reauthorize the Water and Wastewater Loan and Grant Programs, the Technical Assistance and Training Grant Program, the Essential Community Facilities Program, and the Water Infrastructure Revolving Loan Program at or near the levels in the current farm bill.

Despite RD's many successes, a substantial number of small communities, towns, and counties have difficulty fully accessing and complying with RD regulations. The application process and eligibility requirements for each program are slightly different and each poses unique challenges. Local leaders, most often volunteers, find that meeting RD loan requirements can be a complex and time-consuming process. However, with help from an experienced technical assistance provider, even communities with no paid staff and limited planning resources can develop the local capacity to apply for and manage needed infrastructure projects.

While there are many calls for reducing the requirements for accessing loans, RCAP's experience is that these requirements are for the most part necessary to ensure that the Federal Government is making financial support available only to the neediest communities while ensuring the security of the Federal investment. The extremely low default rate on these loans is a testament to the efficacy of existing requirements.

One area for improvement might be to have common environmental review requirements among all Federally financed infrastructure programs. Oftentimes, projects have multiple funding sources with varying environmental review and assessment requirements. The existing Technical Assistance and Training Grant Program has been so successful that many state RD offices and local community officials have repeatedly asked RCAP to assist with other non-water-related RD-funded projects, in particular, the Essential Community Facilities Program. Community facilities constitute and important foundation for rural community growth and job creation. A CF Technical Assistance and Training Program can ensure that these facilities are planned for, constructed, operated, and managed in an efficient manner that benefits the entire community and promotes economic development opportunities.

There has been an increasing emphasis on regionalization, as we have already heard today, which RCAP supports and we would propose that borrowers demonstrate to RD—this is particularly on the water and the wastewater side—their efforts towards regionalized service provision as part of the application process. In addition, higher priorities should be given to regional applications, especially those resulting in consolidations or collaborative service delivery.

RCAP's experience, however, has been that regionalization is most often successful when a technical assistance provider is able to spend time with all the entities involved to offer alternative approaches, assist in the evaluation of costs and benefits, identify funding sources, prepare necessary documentation, and promote public education and outreach.

There are some proposals being discussed, as we have heard today, to standardize the definition of *rural* in all RD programs. While this might seem reasonable, any effort to increase the size of eligible borrowers under the water and environment programs above a 10,000 population would severely jeopardize what is basically the only source of Federal funding for small community infrastructure needs. If the definition is expanded, many of our nation's smallest communities will be unable to compete for RD water infrastructure funds with much larger towns placing them at a competitive disadvantage for the one program that was designed especially for their unique needs.

I will end my remarks here and hope that you will review my written statement for additional information and ideas on the RD title and the farm bill. And I appreciate the opportunity to be here and would be happy to answer any questions.

[The prepared statement of Mr. Stewart follows:]

PREPARED STATEMENT OF ROBERT B. STEWART, EXECUTIVE DIRECTOR, RURAL COMMUNITY ASSISTANCE PARTNERSHIP, WASHINGTON, D.C.

Thank you, Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, for this opportunity to address the importance of USDA Rural Development (RD) programs to rural America. In my over 25 years of work in the rural utility field, first in my home state of Texas, and now managing a nation-wide rural community development organization, I have experienced firsthand the vital role that RD's water and sewer and community facilities programs play in improving the quality of life in the rural communities that form the backbone of our heartland.

My name is Robert Stewart, and I am the Executive Director of the Rural Community Assistance Partnership (RCAP). RCAP is a nonprofit national network of regional service providers that for nearly 40 years has helped small, low-income, rural communities address water, wastewater, and other community development needs in all 50 states, Puerto Rico, and the Virgin Islands. Our staff of assistance providers delivers onsite training and technical assistance to small water and wastewater systems to help them meet regulatory requirements, finance and manage capital improvement projects and to develop and sustain technical, managerial, and financial capacities.

For many years, the RCAP network has partnered with USDA to bridge the gap between RD and the communities they serve. RCAP assists rural communities with funding applications and every phase of the project planning and development process, as well as providing training and technical assistance after construction is complete, helping communities understand how to properly manage and operate their system in a fiscally sustainable manner. We work to ensure that RD borrowers are able to meet the terms of their Letters of Condition and that they are able to repay their loans on time. Every year, the RCAP network helps roughly 2,000 rural communities address their water and wastewater needs.

Providing these basic services is a challenge for many rural communities. Rural residents are three times more likely than their urban counterparts to lack water and sanitation; they also typically pay nearly three times the amount for water and sewer services. Due to their limited customer base, small utilities lack the economies of scale that reduce the costs of infrastructure construction, operation, and maintenance to levels that are affordable to low-income residents. Few rural communities can access the municipal bond market or find banks that are willing to invest in such long-term, low-yield transactions. So, many turn to RD as their lender of last resort.

USDA–RD Water and Wastewater Programs Have Been Enormously Successful

RD's water and wastewater programs are a key component of economic development in rural America. Every water and wastewater construction dollar generates nearly $15 of private investment and adds $14 to the local property tax base. Without the basic infrastructure funded by RD—clean drinking water for household needs, sufficient quantities of water to support local industry, and sanitary sewers to remove sewage and industrial byproducts to protect public health—local employers will relocate or close factories and small businesses will decline and eventually disappear. The entrepreneurs and small business owners who are the engines of our economy won't open new businesses, shops or restaurants on Main Street without basic services. Infrastructure is the foundation of economic development, and to promote economic growth in rural America, you need to ensure that businesses' and residents' basic needs—like water and sewer services—are met. Opportunities for continued economic growth in rural communities are substantial. Agricultural production, oil and gas development, mining operations, alternative energy pursuits, and tourism are all vibrant economic sectors that depend on sustainable rural communities. RD programs play a part in making available to rural communities water and wastewater utilities, essential community facilities, affordable housing, and broadband.

The Water and Environment Programs at RD have enjoyed tremendous success over the past few decades. The agency boasts a portfolio of more than 18,000 active water/sewer loans, more than 19 million rural residents served, and a delinquency rate of just 0.18%.[1] This success is partly attributable to the field presence RD has historically maintained in rural areas. With staff in field offices throughout the country, RD is uniquely positioned to evaluate the credit-worthiness of small utilities and can distribute Federal funds quickly and efficiently to areas of need. In drought years, or after natural disasters, community leaders benefit from being able to turn to a local RD staffer whom they know and trust and who is familiar with their system and its needs, though recent staff reductions in RD offices nationally have started to hinder the ability of RD to serve rural communities with these critical services. To build on the past successes of the Water and Environment Programs, the farm bill should reauthorize the water and wastewater loan and grant programs, the technical assistance and training grant program, and the water infrastructure revolving loan fund program at or near the levels in the previous farm bill.

Technical Assistance is Key to Ensuring RD's and Rural Communities' Success

Despite RD's many successes, a substantial number of small, low-income towns and counties have difficulty accessing RD programs. The application process and eligibility requirements for each program are slightly different, and each poses unique challenges. Local leaders are most often volunteers who lack professional staff and the resources to find out what funding sources are available or the requirements for funding eligibility. Their first look at the Letter of Conditions on an RD loan can make the process seem overwhelming and discourage worthy applications. With help from an experienced technical assistance provider, however, even communities with no staff and limited planning resources can develop the local leadership capacity to manage needed infrastructure projects. Technical assistance plays a vital role in ensuring that the programs serve the communities they were designed to benefit in a cost-effective manner.

While there are many calls for reducing the requirements associated with obtaining water and wastewater financing from RD, RCAP's opinion is that these requirements are for the most part necessary to ensure that the Federal Government is making financial support available to the neediest communities while ensuring the security of the Federal investment. The extremely low default rate on these loans is a testament to the efficacy of existing requirements. Common environmental review requirements among all Federal and state infrastructure programs would be one area for improvement. Oftentimes projects have multiple funding sources with varying environmental review/assessment requirements, and standardizing them across Federal programs would reduce the burden on applicants to conduct multiple separate reviews.

Overall, the water and wastewater Technical Assistance and Training Grant Program has been so successful that many state RD offices and local community officials have asked the RCAP network to assist with other, non-water-related RD-funded projects. While we try to work with as many communities as we can by relying on non-Federal resources, Congress can help by authorizing changes to existing farm bill programs, specifically Rural Housing Service's Essential Community Facilities (CF) Program, to allow for set-asides to fund technical assistance. State RD Offices have repeatedly asked RCAP for assistance with borrowers under the CF program. A CF technical assistance and training program can provide much-needed support for the CF program as has been the case with the water and wastewater programs. Under current and projected economic environments, essential community facilities constitute an important foundation for rural community growth. Hav-

[1] United States. Dept. of Agriculture. Rural Development. *Water and Environmental Programs Annual Activity Report, Fiscal Year 2011.* Washington, D.C.: USDA, 2012.

ing a dedicated technical assistance program in this area will ensure that these facilities are planned for, constructed, operated and managed in an efficient manner that benefits the entire community and promotes economic development opportunities.

As the success of the water and wastewater programs has shown, technical assistance benefits both rural communities and the agency by improving access to the programs and ensuring a positive return on Federal investments. By expanding technical assistance to other programs at RD, taxpayer dollars can go further while still providing necessary services to rural communities. In addition, a broader technical assistance program would help ensure a more coordinated approach to economic development in rural communities. Experienced planners who are familiar with the application processes for Federal and state programs could help communities better coordinate the timing of their development projects. This would help prevent communities from tearing up Main Street 1 year to replace sewer pipes, then tearing it up again the following year to install fiber optic cables, simply because that's when the funding was available. A comprehensive Federal approach to technical assistance among all RD programs would allow local leaders to better plan and coordinate their construction activities and eliminate such inefficiencies.

Regionalization Issues

Another way Congress can improve existing RD programs is to encourage applicants to look for opportunities to regionalize. In order to maximize limited resources, communities need to realistically examine whether operating their own facilities is cost effective. With respect to water and sewer infrastructure, at times clusters of small towns can better and more affordably be served by having one large treatment plant with pipes running to each town than by having a separate treatment facility in each town. In areas where communities are too far apart to run pipes, utilities could benefit from shared management, operations, purchasing and other similar joint service provisions. Regionalization may not be feasible in all cases, especially in areas with long distances between communities. However, RCAP recommends that potential borrowers demonstrate to RD their efforts to employ regionalized service provision as part of the application process.

Most states now require that new or expanding utilities provide documentation regarding their efforts to regionalize prior to being granted a license or certificate to serve an area. Priority should be given to applications for regional service provision, especially in cases where smaller or non-compliant systems are being consolidated to more efficiently serve their customers. By giving a small priority to projects in which the applicants can demonstrate that they have weighed the costs and benefits of regionalization, RD can encourage regional projects where appropriate without disqualifying communities that are geographically isolated. Furthermore, RCAP's experience has been that regionalization is most often successful when a technical assistance provider is able to spend time with all entities involved to offer alternative approaches, assist in the evaluation of costs and benefits, identify funding sources, prepare necessary documentation, and assist with public education and outreach.

Some consideration should also be paid to the current language contained in 7 U.S.C. § 1926(b) "Curtailment or limitation of service prohibited" that allows water districts that are USDA borrowers to veto any activity that impacts service provision in their area. The need to protect the Federal investment is necessary and was the basis for this provision. However, should Congress decide that regionalized approaches to service delivery are appropriate in some cases, then a re-examination of this provision is necessary to allow for a more comprehensive and planned approach to regional development. As this currently stands, the Federal protection afforded under 1926(b) can prevent state and local governments from making their own decisions on how best to provide utility services in local areas.

Reauthorize Revolving Funds for Financing Water and Wastewater Projects

7 U.S.C. § 1926(a)(2)(B) authorizes a program for nonprofit entities to capitalize revolving loan funds for the purposes of financing eligible borrowers with pre-development or other short-term capital costs (such as site acquisition or engineering costs or for equipment replacement, small service extensions or emergency repairs). RCAP would recommend that this program be maintained at currently authorized levels and the maximum for eligible loans to small-system borrowers be increased from $100,000 to $150,000, as costs for even the smallest repairs have increased significantly. Both RCAP and the National Rural Water Association have utilized this program to capitalize revolving loan fund programs that have assisted small communities to extend services, meet regulatory requirements, make emergency repairs

and fund pre-development costs associated with major capital construction projects. These types of loans are typically not available from RD or the State Revolving Funds, nor do small communities have much hope of securing these loans from private sources. Demand for these loans far surpasses amounts authorized and appropriated for this purpose.

Changing the Definition of "Rural"

There are some proposals being discussed to standardize the definition of "rural" in all RD programs. While it might seem reasonable to have a single definition of rural that encompasses the utility, community facilities and business programs, any effort to increase the size of eligible borrowers under the Water and Environmental Programs above 10,000 would severely jeopardize what is basically the only source of Federal funding for small, rural community infrastructure needs. If the definition is expanded to, say, 50,000 and under, many of our nation's smallest communities will be unable to compete for RD water and sewer infrastructure funds with much larger towns that have departments of full-time staff, engineers and grant writers. The sheer number of community water systems serving populations under 10,000—over 90% of the 53,000 community water systems in this country—requires that limited RD funded be targeted to those communities with the greatest need, and the greatest need is in these smaller, rural communities.

Larger communities—even those in the 10,000–50,000 population range—have access to the bond market, other state-funded programs and/or bank financing at reasonable rates and terms. Larger communities also benefit from greater numbers of customers over which to apportion debt service costs. This allows larger systems to afford treatment and service options, and to keep costs to customers reasonable, while accessing non-Federal financing sources. If allowed access to RD funding, many of these larger communities will instead turn to lower-interest RD loans, which will leave the small communities that have no other options out of the mix. Smaller rural communities should not be placed at a competitive disadvantage for the one program that was designed specifically to meet their unique needs. Many smaller, economically distressed communities require the kind of grant/loan packages provided by RD in order to make customer costs reasonable, even if these costs are still typically much higher than what is found in their larger or more urbanized neighboring communities.

Household Water Well Program: 7 U.S.C. § 1926(E)

This section allows RD to make grants to nonprofit organizations to loan money to individuals to finance the construction, refurbishing and servicing of individually owned household water well systems in rural areas. While this program, combined at times with state housing programs, has benefited low-income families in isolated rural areas that would otherwise be unable to obtain water except through a household well, the farm bill should require that none of these loans go to residences in areas where RD has funded or is considering funding a community water system. Funding individual homeowner loans can adversely impact small customer bases within areas funded by RD's community water loans by reducing the potential number of customers who are ultimately responsible for servicing the Federal debt. Furthermore, encouraging multiple wells into potentially sensitive and increasingly depleted aquifers can negatively impact other users from both a water quality and water quantity perspective.

Conclusion

Solving the challenges facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that funding is available to all communities that truly need it, and a comprehensive approach to technical assistance to maximize the efficiency and effectiveness of RD's programs. It also includes an emphasis on regional economic development and cost-effective investments in infrastructure that provide maximum return on scarce Federal, state, and local resources. The farm bill reauthorization is an opportunity to replicate the success of the water/wastewater technical assistance program and modify existing programs, such as Essential Community Facilities, to encourage a regional approach to rural development, while protecting taxpayer investment in our nation's water and sewer infrastructure.

Thank you for considering my testimony on the importance of rural development as you prepare for your farm bill deliberations. I welcome any questions you may have at this time.

The CHAIRMAN. Mr. Rozzelle?

STATEMENT OF DAVID G. ROZZELLE, EXECUTIVE VICE PRESIDENT, SUDDENLINK COMMUNICATIONS; MEMBER, RURAL AND SMALL SYSTEM OPERATOR COMMITTEE, NATIONAL CABLE TELECOMMUNICATIONS ASSOCIATION, ST. LOUIS, MO

Mr. ROZZELLE. Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, thank you for inviting me to testify today. My name is Dave Rozzelle, and I am an Executive Vice President with Suddenlink Communications. Suddenlink is a leading provider of cable video services, high-speed Internet access, wireless home networking, wireline phone, online video, home security services for hundreds of communities, approximately 1.4 million households and thousands of commercial customers across 11 states. Suddenlink primarily serves second-tier communities such as Lubbock, Texas; Charleston, West Virginia; Jonesboro, Arkansas; Lake Charles, Louisiana; and Greenville, North Carolina. However, we also serve dozens of small rural communities, some with populations below 500 people.

Since 2009, we have invested $350 million above and beyond our normal capital spending levels to ensure that our customers can enjoy cutting-edge services, including high-speed Internet service, which we offer to substantially all of our customers. Moreover, our investment in industry-leading DOCSIS 3.0 technology has enabled us to provide data transmission speeds up to 107 megabits to a growing number of our residential customers, some in small rural communities like Pomeroy, Ohio, and Ripley, West Virginia.

I am also here today as a member of the Rural and Small System Operator Committee of the National Cable and Telecommunications Association. NCTA is the principal trade association of the cable industry in the United States. Since 1996, the cable industry has invested over $185 billion to upgrade and expand its networks to provide broadband access and now offers high-speed Internet service to more than 93 percent of U.S. households.

Suddenlink and NCTA strongly support the primary goals of rural broadband funding. Broadband is a crucial driver of economic recovery and global competitiveness and quality broadband services should be available to all regions of the country, including the least densely populated areas of the country. Unfortunately, over the past 10 years, the implementation of the rural broadband programs by the Rural Utilities Service has not maintained that focus. The USDA Inspector General issued critical reports in 2005 and 2009 which found that "the overwhelming majority of communities, 77 percent, receiving service through the Broadband Program already have access to the technology without the RUS Loan Program."

Misdirecting scarce government funds to areas that are already being served means less support for areas without any broadband. It also puts existing private providers in the untenable position of having to compete against a government-subsidized competitor. Though the 2008 Farm Bill made some reforms, the RUS's new March 2011 rules still allow the RUS to approve applications that are complete overbuilds without reaching any new households which lack broadband service.

We respectfully submit that the new farm bill should take strong steps to direct taxpayer dollars where they are most needed. Specifically, as this Subcommittee considers reauthorization of the legislation, we urge you to consider the following four proposals:

First, limit funding to substantially unserved areas. To ensure available funds are used effectively, the RUS Broadband Support Loans, Loan Guarantees, or Grants should be limited to areas where at least 75 percent of residential households lack access to broadband service.

Second, seek additional information. To ensure compliance with this proposed eligibility standards, the Secretary of Agriculture should be required to give existing providers an opportunity to voluntarily submit information about their service areas that may overlap areas proposed to be served by the applicant. This was done in the stimulus program.

Third, prioritize support to areas most in need of it. The Secretary should continue to give priority to the RUS Broadband Loans or Grants that will extend broadband service to areas with the greatest proportion of unserved households.

Finally, increase accountability. Each entity receiving RUS broadband support should be required to report quarterly on its use of the funds and its progress and those reports should be available online. That was done by the Department of Commerce in the stimulus program.

Suddenlink and NCTA share your goal of bringing broadband to every rural household. A well administered Broadband Loan Program is an important part of reaching that goal. Including our four proposals will help ensure that the program stays focused and on track to do so.

Thank you for the opportunity to speak here today and I appreciate your willingness to consider ways to ensure broadband funds are spent in the most effective way possible for all Americans. I look forward to taking your questions at the appropriate time.

[The prepared statement of Mr. Rozzelle follows:]

PREPARED STATEMENT OF DAVID G. ROZZELLE, EXECUTIVE VICE PRESIDENT, SUDDENLINK COMMUNICATIONS; MEMBER, RURAL AND SMALL SYSTEM OPERATOR COMMITTEE, NATIONAL CABLE TELECOMMUNICATIONS ASSOCIATION, ST. LOUIS, MO

Good morning, and thank you for inviting me to testify today. My name is Dave Rozzelle, and I am an Executive Vice President with Suddenlink Communications. Suddenlink is a leading provider of cable video services, high-speed Internet access (also known as broadband access), wireless home networking, wireline phone, online video, and home security services for communities primarily located in Texas, West Virginia, Louisiana, Arkansas, North Carolina, Oklahoma, Missouri and Arizona.

Suddenlink provides service to hundreds of communities and approximately 1.4 million households. Suddenlink primarily serves second tier markets, such as Lubbock, TX; Charleston, WV; Jonesboro, AR; Lake Charles, LA; and Greenville, NC. However, we also serve dozens of small, rural communities, some with populations below 500 people.

Since 2009, we have invested over $350 million—above and beyond our normal capital spending levels—to ensure that our customers can enjoy cutting-edge services, including high-speed Internet service, which we offer to substantially all of our subscribers. Moreover, our investment in industry-leading DOCSIS 3.0 technology has enabled us to provide data transmission speeds up to 107 Mbps to a growing number of our residential customers, some in small communities like Pomeroy, Ohio, and Ripley, West Virginia.

I am also here today as a member of the Rural and Small System Operator Committee of the National Cable & Telecommunications Association (“NCTA”). NCTA is the principal trade association of the cable industry in the United States. NCTA represents cable operators serving more than 90 percent of the nation’s cable television households and more than 200 cable program networks, as well as equipment suppliers and providers of other services to the cable industry. The cable industry has long been at the forefront of the growth and deployment of broadband service. Since 1996, the cable industry has invested over $185 billion to upgrade and expand its networks to provide broadband access. The result of this investment is that cable operators today offer high-speed Internet service to more than 93 percent of U.S. households.

Suddenlink and NCTA strongly support the primary goals of rural broadband funding. Quality broadband services should be available to all regions of the country, including the least densely populated areas of the country. Broadband is a crucial driver of economic recovery and global competitiveness. Broadband links rural America to the rest of the country and the world, creates jobs, improves educational opportunities, and delivers health care more efficiently. While Suddenlink has invested an incremental $350 million in recent years to bring the most advanced services to its customers, we recognize that there are still some rural consumers who lack access to broadband. Rural broadband funding programs should focus on bringing broadband to those rural consumers.

Unfortunately, over the past 10 years the implementation of the rural broadband programs by the Rural Utilities Service ("RUS") has not maintained that focus. Time and again, the USDA's Inspector General has found that taxpayer dollars were used to underwrite broadband services in areas that already have broadband from providers that are funded wholly by risk capital. Likewise, a study by Navigant Economics concluded that RUS grants and loans were awarded to areas already served by multiple broadband providers—at the cost of tens of thousands of dollars or more for each unserved household. Misdirecting funds to areas that are already being served means less support for areas without any broadband—and it also puts existing providers in the untenable position of having to compete against a government-subsidized competitor.

Unlike water or electricity, the broadband market is highly competitive in many areas, including in many rural areas of the country. In the broadband context, misallocated funds not only waste tax dollars, they undermine the goal of fair competition. Particularly in the current budget situation, neither of these outcomes is acceptable. As you consider whether and how to reauthorize the rural broadband program, it is essential that you include clear direction to the RUS to ensure that taxpayer dollars are put to work to extend broadband to unserved areas rather than subsidize competition in communities where service is already available, and that you include mechanisms to ensure transparency and accountability with respect to any projects that the RUS may fund.

My testimony today will address these points in a little more detail, including some specific proposals for targeting rural broadband funds.

Rural Broadband Support Programs Should Focus on Unserved Areas

Bringing service to unserved areas is an important and appropriate objective for rural broadband programs. It is widely acknowledged that broadband is a crucial driver of economic recovery and global competitiveness. By facilitating economic development, broadband will add jobs to the economy. Broadband is also central to improving educational opportunities and delivering health care more efficiently, important benefits that also contribute to economic growth.

As the Department of Agriculture has noted, "broadband Internet access is becoming essential for both businesses and households" and "many compare its evolution to other technologies now considered common necessities . . ."[1] Broadband Internet access would benefit businesses as well as provide "rural residents access to goods and services that may not otherwise be available locally or via dial-up Internet."[2]

Unfortunately, these considerable benefits are still unavailable to some rural and remote areas of our nation where market forces have proved insufficient to encourage investment in broadband networks and service. These are the areas that should be the focus of the rural broadband loan program.

In recognition of this priority, Congress has tried to focus rural broadband programs on unserved areas. For instance, in response to findings that the broadband loan program enacted in the 2002 Farm Bill included funding for suburban areas, Congress enacted reforms to the program in 2008. The 2008 Farm Bill prioritized funds for unserved areas and directed the Secretary of Agriculture to "give the highest priority to applicants that offer to provide broadband service to the greatest pro-

[1] U.S. DEP'T. OF AGRICULTURE, ECONOMIC RESEARCH SERVICE, *Rural Broadband at a Glance,* at 1 (Feb. 2009), available at *http://www.ers.usda.gov/Publications/EIB47/EIB47_SinglePages.pdf.*

[2] *Id.* at 4

portion of households that, prior to the provision of the broadband service, had no incumbent service provider."[3]

The 2008 Farm Bill also established revised project eligibility standards, requiring, with certain exceptions, that at least 25% of the households in the proposed service territory be unserved or served by only one broadband provider, and that no portion of the proposed service territory be served by three or more providers in order for a project to be eligible for funding.[4] The law also improved the transparency of the loan process by directing the Secretary of Agriculture to publish a notice for each loan or loan guarantee application describing the content of the application, including the identity of the applicant; each area proposed to be served by the applicant; and the estimated number of households without terrestrial-based broadband service in those areas.[5]

Likewise, the American Recovery and Reinvestment Act (the "Recovery Act")—which included $7.2 billion to subsidize broadband deployment, the largest Federal subsidies ever provided for broadband construction in the U.S.-targeted funding to areas "without sufficient access to high speed broadband service to facilitate rural economic development" and gave priority to projects that provide service to the highest proportion of rural residents that do not have access to broadband service.[6]

RUS Has Consistently Failed To Keep Its Focus on Unserved Areas

Despite some successes and prior efforts at reform, however, RUS's implementation of rural broadband programs has consistently fallen short. In two separate reports, the USDA's Office of Inspector General ("OIG") criticized the RUS for failing to focus on unserved areas. In 2005, the OIG found that the rural broadband program enacted as part of the 2002 Farm Bill had "not maintained its focus on rural communities without preexisting service" and was instead subsidizing competition in suburban areas and in communities already served by one or more existing broadband providers.[7]

OIG "question[ed] whether the government should be providing loans to competing rural providers when many small communities might be hard pressed to support even a single company. In these circumstances, the RUS may be setting its own loans up to fail by encouraging competitive service; it may also be creating an uneven playing field for preexisting providers operating without government assistance."[8]

In March 2009, OIG released a second report evaluating implementation of the 2002 Farm Bill, concluding that "the key problems identified in our 2005 report—loans being issued to suburban and exurban communities and loans being issued where other providers already provide access—have not been resolved."[9] It found that despite OIG's 2005 initial findings, "RUS continued to make loans to providers in areas with preexisting service, sometimes in close proximity to urban areas."[10] Of "37 applications approved by RUS since September 2005, 34 were granted to applicants in areas where one or more private broadband providers *already offered service.*"[11]

Although the 2008 Farm Bill did not explicitly prohibit granting loans to preexisting service areas, OIG expressed its concern that "the overwhelming majority of communities (77 percent) receiving service through the broadband program already have access to the technology, without the RUS's loan program. Moreover, the

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[3] Food, Conservation, and Energy Act of 2008, Pub. L. No. 110–246, § 601(c)(2) (2008) ("2008 Farm Bill"); *see also* CONF. REP. NO. 110–627, at 832 (2008). And the House Report indicated that eligibility requirements were tightened for the broadband loan program in order "to refocus on both rural and unserved areas of the country and provide[] additional criteria to USDA to prevent entities from receiving loans to serve only markets already sufficiently served with high-speed and affordable broadband service." See HOUSE REP. NO. 110–256, at 232 (2008).

[4] 2008 Farm Bill, §§ 601(d)(2)(A)(i)–(ii).

[5] *Id.* § 601(d)(5).

[6] American Recovery and Reinvestment Act of 2009, Pub. L. No. 111–5, 123 Stat. 115, 118 (2009).

[7] OIG AUDIT REPORT 09601–4–Te, RURAL UTILITIES SERVICE BROADBAND GRANT AND LOAN PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, OFFICE OF INSPECTOR GENERAL, SOUTHWEST REGION, at ii (Sept. 2005) ("OIG 2005 Report").

[8] *Id.*

[9] OIG AUDIT REPORT NO. 09601–8–TE, RURAL UTILITIES SERVICE BROADBAND LOAN AND LOAN GUARANTEE PROGRAM, AUDIT REPORT, U.S. DEPARTMENT OF AGRICULTURE, OFFICE OF INSPECTOR GENERAL, at 9 (Mar. 2009) ("OIG 2009 Report").

[10] *Id.* at 2.

[11] *Id.* at 5 (emphasis added).

legal ramifications of subsidizing some providers in a given area, but not others, have proved problematic."[12]

The Inspector General also voiced concerns about the RUS's ability to disburse Recovery Act funds going forward:

> We remain concerned with RUS' current direction of the Broadband program, particularly as they receive greater funding under the [Recovery Act], including its provisions for transparency and accountability. As structured, RUS' Broadband program may not meet the Recovery Act's objective of awarding funds to projects that provide service to the most rural residents that do not have access to broadband service.[13]

OIG concluded that "[w]e remain concerned that the majority of RUS' program funds have not been utilized in expanding broadband service to rural areas where no prior service exists."[14]

At a February 2011 House Energy and Commerce Communications Subcommittee hearing, the Inspector General reiterated her concerns about the RUS Broadband Loan Program. In particular, she noted that:

- The RUS had a history of "not maintain[ing] its focus on rural communities lacking preexisting service;"
- The RUS had devoted "significant portions of its resources to funding competitive service in areas with preexisting broadband access rather than expanding service to communities without existing access;" and
- "RUS' decision to fund certain providers in rural communities, but not others . . . could create an unlevel playing field for providers already operating without government subsidies."[15]

The RUS's New "Interim Final" Rules Perpetuate the Problems Identified by OIG

Despite the RUS's persistent failure to focus on unserved areas, confirmed by OIG, we were hopeful that the RUS would address these problems through the adoption of rules to implement the reforms of the 2008 Farm Bill. Unfortunately, the RUS's new "interim final" rules for the Broadband Loan Program, despite being 3 years in the making, perpetuate the problems that have plagued the program from the outset.

The new rules *still* allow the agency to fund complete overbuilds without reaching any households with no broadband service. They also allow loans to be made in an area where two existing private providers are already offering competing service, as long as 25% of the households in the proposed service area are unserved *or* underserved (defined to mean an area where service is offered by zero or one incumbent providers). This means that a valid proposed service area could already have two competing private providers offering service to 75% of the households and one provider offering service to 25% of the households and still get a loan. An award could be made even though the loan recipient ***would not be reaching a single household that lacked broadband service.***

In addition, the new rules allow the RUS to fund upgrades in areas that are served, without regard to the number of households that do not have service and without regard to whether the service area is already served by any number of providers. (Loans for upgrades are restricted in areas with multiple providers only if an applicant is eligible to receive funding through another Rural Electrification Act funding program.) This results in bringing ***new service to no new households*** and, again, has the government subsidizing a competitor and picking winners and losers in the market.

The Failure to Prioritize Unserved Areas Imposes Substantial Costs on the Economy and Deters Private Investment

The impact of funding duplicative broadband networks has resulted in an extremely high cost to reach a small number of unserved households, all at taxpayer expense. According to an economic analysis and three case studies of funding under the Recovery Act's Broadband Initiatives Program, commissioned by NCTA and pre-

[12] *Id.* at 6.
[13] *Id.* at 2.
[14] *Id.* at 10.
[15] *See* Statement of the Honorable Phyllis K. Fong, Inspector General, before the Subcommittee on Communications and Technology, Committee on Energy and Commerce, U.S. House of Representatives, at 2–3 (Feb. 10, 2011), available at *http://democrats.energycommerce.house.gov/sites/default/files/image_uploads/Fong_Testimony.pdf.*

pared by Jeffrey A. Eisenach and Kevin W. Caves of Navigant Economics,[16] that cost, if imposed nationwide, would nearly triple the price of extending broadband to every U.S. home.

Among the key findings in the study are the following:

- Of the three projects analyzed, more than 85 percent of households were already passed by existing broadband providers, and in one project area, more than 98 percent of households were already passed by at least one provider.[17]
- Based on the cost of the direct grants and subsidizing the loans, the study estimated that the cost per unserved household passed would be $30,104 if existing coverage by mobile broadband providers is ignored, and $349,234 if mobile broadband coverage is taken into account.
- The RUS approach of funding duplicative coverage is directly at odds with the National Broadband Plan's recommendations and would massively increase the cost of extending broadband to all unserved homes. The FCC's Omnibus Broadband Initiative estimated that the cost of extending broadband to every unserved household in the U.S. is approximately $23.5 billion, so long as duplicative service is not funded. But funding duplicative service—as the RUS did under BIP—increased the cost of a nationwide build-out by $63.7 billion, to $87.2 billion.[18]

The Navigant study examined three large BIP subsidy awards which totaled $231.7 million, or about seven percent of the total BIP $3.5 billion combined loan and grant program:

- $101.2 million in northwestern Kansas;
- $66.4 million for Lake and St. Louis counties in northeastern Minnesota;
- $64.1 million to cover a portion of Gallatin County in southwest Montana.

In northwestern Kansas, the Rural Telephone Service Company ("RTS") and its wholly-owned subsidiary NexTech were awarded $101.2 million in loans and grants to deploy and upgrade broadband services. Although the project area covered 4,247 square miles and contained 14,588 households, the majority of those households were in one city—Hays, Kansas—which covers less than 8 square miles. Hays, however, was already served by RTS, AT&T and Eagle Communications. Only 2,442 households in the entire project area were unserved using the RUS's definition—and if 3G wireless broadband service was taken into account, all but 25 households—0.2%—were already served. Indeed, the majority of the unserved area was also *uninhabited.*

On average, across all the principal counties that comprise the proposed service area, 95 percent of the households already had high-speed broadband service. The taxpayer cost per unserved household for this project—for which the RUS benchmark is $10,000 and the FCC benchmark is $6,350—was ***$30,329*** based on the RUS's definition. If wireless 3G broadband was taken into account, the cost rose to ***$2,954,920*** per unserved household.[19]

In northeastern Minnesota, the Lake County Fiber Network ("LCFN") was awarded $66.4 million in loans and grants to develop last mile FTTP infrastructure in an area comprising Lake County and portions of eastern St. Louis County. The proposed service area covered 2,675 square miles and included 11,637 households.[20] Of those households, only 2,669—about 23%—were unserved using the RUS's definition, and only 421 households were unserved by any terrestrial broadband provider—meaning that only 3.6 percent of households were unserved when mobile broadband service is taken into account.

As in Kansas, much of the area that was unserved was also uninhabited. In the served areas, there were at least eight facilities-based broadband providers, and the majority of households in the proposed service area had a choice among multiple providers and 68% of those households were served by three or more providers. The taxpayer cost per unserved household for this project—against the RUS's benchmark of $10,000 and the FCC benchmark of $6,250—was ***$13,746*** based on the

[16] Jeffrey A. Eisenach and Kevin W. Caves, "*Evaluating The Cost-Effectiveness of RUS Broadband Subsidies: Three Case Studies*" (Apr. 13, 2011), available at *http://www.ncta.com/DocumentBinary.aspx?id=966.*

[17] *Id.* at 4.

[18] *Id.* at 16.

[19] *Id.* at 23–32.

[20] LCFN's proposal asserts a substantially greater number of households passed, which appears to stem from its inclusion of unoccupied housing units within the total. *Id.* at 33–34 n. 72.

RUS's definition. If wireless 3G broadband was taken into account, the cost rose to ***$87,231*** per unserved household.[21]

In southwest Montana, Montana Opticom, LLC received $64.1 million to deploy last mile FTTP infrastructure in Gallatin County, Montana. The proposed service area covered 154 square miles and included 9,035 households—and was considered one of the most densely populated, rapidly growing and prosperous counties in Montana, with more extensive broadband coverage than most other areas of the state. Of the 9,035 households covered by the project, only 136—***1.5%***—were unserved using the RUS's definition. Only ***7*** households—0.1%—were unserved when mobile broadband service is taken into account.

As with the other two areas, much of the area that was unserved was also uninhabited. In fact, none of the census blocks in the areas the RUS claims were "unserved" contained more than a single occupied housing unit. In the served areas, there were at least nine facilities-based broadband providers, and 93% of those households already were served by five or more broadband providers. Ninety-eight percent of households had a choice among four or more broadband providers. The taxpayer cost per unserved household for this project was ***$346,032*** based on the RUS's definition. If wireless 3G broadband was taken into account, the cost rose to ***$7,112,422*** per unserved household.[22]

Navigant concluded that "[w]hile it may be too early for a comprehensive assessment of the [Recovery Act]'s broadband programs, it is not too early to conclude that, at least in some cases, millions of dollars in grants and loans have been made in areas where a significant majority of households already have broadband coverage, and the costs per incremental home passed are therefore far higher than existing evidence suggests should be necessary."[23]

This type of waste has a tremendous impact on broadband deployment throughout our nation. Facing a government-subsidized competitor creates tremendous difficulties for rural and smaller market companies, and creates a disincentive for companies like ours to invest. As I noted earlier, Suddenlink has invested over $350 million in private capital in the last 3 years alone to bring cutting-edge broadband to our communities. A robust broadband strategy inevitably depends on this continued private investment—government subsidies cannot fund all the broadband deployment needed for the country to become truly broadband-accessible. But using scarce Federal resources to skew the playing field will discourage and undermine this investment. It threatens the jobs of employees of the private enterprises who live in the very communities the awards are intended to benefit, offsetting new jobs created by the project, and undermining one or more broadband providers in the area to benefit another.[24] Moreover, devoting funds to already-served areas creates a greater risk that loans may not be repaid because borrowers will face pre-existing competition.

Rural and smaller market operators like Suddenlink are ready and willing to face competition from other providers. We have competed with large corporations like DISH Network, AT&T, Verizon, and DIRECTV for many years. That type of competition, however, differs from government-backed investment in particular companies. Companies that have taken the financial risk of serving a rural market, and serving it well, without government assistance cannot realistically be expected to continue to do so if they must face a government-subsidized competitor. Moreover, wasting valuable dollars to overbuild well-served communities at the expense of unserved residents does not make sense, particularly in the current economic environment.

RUS Must Be Given Clear and Unambiguous Direction to Ensure That Broadband Loan Dollars Are Appropriately Directed to Unserved Areas

The new farm bill should take strong steps to direct taxpayer dollars where they are most needed. Specifically, as this Subcommittee considers reauthorization of the legislation, we respectfully urge you to consider the following four proposals.

First, limit funding to substantially unserved areas. To ensure available funds are used effectively, the RUS broadband support loans, loan guarantees, or grants should be limited to areas where at least 75% of residential households lack access to broadband service of at least 4 Mbps downstream and 1 Mbps upstream—the target basic access speed defined in the Federal Communications Commission's National Broadband Plan.

[21] *Id.* at 33–39.
[22] *Id.* at 17–23.
[23] *Id.* at 6.
[24] *See also id.* at 16–17.

Second, seek additional information. To ensure compliance with this proposed eligibility requirement for the RUS broadband support loan, loan guarantees, or grant programs, the Secretary of Agriculture should be required to give existing providers an opportunity to voluntarily submit information about their service areas that may overlap areas proposed to be served by the applicant, for subsequent due diligence review by the RUS. Similar requirements were adopted by USDA and the Department of Commerce in connection with BIP and the Broadband Technology Opportunities Program ("BTOP").

Third, prioritize support to areas most in need of it. To ensure funds are used where they are most needed, the Secretary should continue to give priority to the RUS broadband loans, loan guarantees, or grants that will extend broadband service to areas with the greatest proportion of households that do not currently have broadband at basic access speeds available from any provider. This would simply extend a provision in current law.

Finally, increase accountability. To ensure transparency and accountability, each entity receiving RUS broadband support loans, loan guarantees, or grants should be required to report quarterly on its use of the funds and its progress in fulfilling the objectives for which the funding was provided. The reports should be made available to the public on the RUS website, along with a database of information about each award made by an RUS broadband program. Congress adopted similar requirements when it established the BTOP program under the Recovery Act.

* * * * *

Suddenlink and NCTA share your goal of bringing broadband to every rural household. A well-administered broadband loan program is an important part of reaching that goal. Including our four proposals will help ensure that the program stays focused and on track to do so. Thank you for the opportunity to speak here today, and I appreciate your willingness to consider ways to ensure that broadband funds are spent in the most effective way possible for all Americans.

The CHAIRMAN. Thank you.

Mr. Bahnson?

STATEMENT OF MARK BAHNSON, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, BLOOMINGDALE COMMUNICATIONS, BLOOMINGDALE, MI; ON BEHALF OF NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION; ORGANIZATION FOR THE PROMOTION AND ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES; WESTERN TELECOMMUNICATIONS ALLIANCE

Mr. BAHNSON. Thank you, Chairman Johnson, Ranking Member Costa, and the rest of the Committee. I appreciate the invitation to participate in today's discussion.

For the past 4 years, I have served as CEO/General Manager of the Bloomingdale Telephone Company headquartered in Bloomingdale, Michigan. My remarks today are on behalf of Bloomingdale, as well as NTCA, OPASTCO, and WTA and their small community-based members who have provided a variety of communication services throughout the rural far reaches of the nation.

America's 1,100 rural telecom providers serve only five percent of the U.S. population located in approximately 40 percent of the nation's geographic landmass. Bloomingdale employs 25 people and our 2011 annual operating revenue was about $5.9 million. We offer 1.5 megabit broadband to 100 percent of our area with much faster speeds available to the majority of our customers, currently up to 20 megabits.

Rural providers are community-focused. Bloomingdale's partnership with RUS has produced countless opportunities whether it is the fiber that we laid in Paw Paw, Michigan, an exchange that can deliver 100 megabit Internet service to the local schools and the county courthouse or the customer who no longer has to travel over 8 hours a week to the University of Michigan Hospital in Ann Arbor for his heart condition. He can now have the tests over fiber done in his home.

Ever since Bloomingdale began this operation in 1904, we have been proud to serve as the only provider to some of the most rural areas of Michigan while the larger carriers chose to serve only the most profitable and densely populated towns. The American economy runs on broadband. In an area moving from no broadband providers to three broadband providers during the years 1999 through 2006, they realized a 6.4 percent employment growth on average, yet only about ½ of rural Americans currently subscribe to broadband at home and half of the small businesses are dissatisfied with their Internet speed.

USDA's Economic Research Service reports that over the past decade, the rural population has grown at less than ½ the rate of metropolitan population. RUS rural development programs, coupled with ongoing support, are essential to delivering the broadband that will empower rural America to reverse this trend.

Our U.S. telecommunication programs have been a success story by providing reliable access to capital that helps carriers deliver affordable voice and broadband service to millions of Americans where it would not otherwise be available. Unfortunately, the momentum and economic development achieved in recent years with the help of RUS lending is being put at risk as a direct result of the regulatory uncertainty created by the FCC's ongoing Universal Service Fund and intercarrier compensation reform proposals. RUS financing works hand-in-hand with ongoing RUS support to meet the national statutory mandate of quality, reliable telecom service in high-cost rural areas where low customer density, vast distances, and rugged terrain deter even the most optimistic business cases. Removing or weakening one piece of that puzzle threatens the provision of telecom service area in rural America and puts millions of RUS loans at risk of default.

For example, Bloomingdale completed a $4.4 million RUS broadband loan project in 2010. That project will net RUS nearly $2.5 million in interest when we have completed the repayment. RUS lending remains essential to broadband deployment. Indeed, 14 million Americans still do not have 4 megabits broadband available. Only 79.2 percent of rural Americans have access to speeds greater than 6 megabit and 70.8 percent are fortunate to have speeds greater than 10 megabits; 10 megabits would be what is commonly considered necessary for rural areas to compete in a modern broadband world.

NTCA and its partners representing the rural telecom industry welcome discussion about ways to improve RUS telecom programs. In short, we are concerned about making further changes to a broadband program that has been at a virtual standstill for 4 years, especially if reforms are designed to cut out lending to areas that still lack broadband. Further, technology and neutrality dictates that the same data transmission requirements must apply to wire and wireless networks. Priority should be given to applicants proposing scalable projects, meaning those that can be easily and relatively inexpensively upgraded over time to reflect the increased consumer demand for more bandwidth. We can't accomplish our broadband goals without granting some discretion to the Secretary who can then adjust based on the endless variety of circumstances presented by applicants.

Serving every American is not a simple undertaking and RUS lending should be the focus on ensuring that everyone has access to robust, reliable broadband over the long term. Regardless of whether consumers are focused on voice, video, or data, they will require the underlying infrastructure to ensure that their communications get to its destination. The rural industry has long been a leader in deploying advanced telecommunication services to America's rural areas and that success is built upon a foundation of public-private partnership and that has worked for decades.

Rural providers and their rural associations are eager to continue to work with you to make broadband universally available as envisioned by many and mandated by statute. Thank you for your attention to this matter.

[The prepared statement of Mr. Bahnson follows:]

PREPARED STATEMENT OF MARK BAHNSON, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, BLOOMINGDALE COMMUNICATIONS, BLOOMINGDALE, MI; ON BEHALF OF NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION; ORGANIZATION FOR THE PROMOTION AND ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES; WESTERN TELECOMMUNICATIONS ALLIANCE

I. Introduction

Thank you for the invitation to participate in today's discussion on the successes of Federal investments in rural broadband and the challenges that lie ahead. Broadband has quickly become an essential service that plays a key role in creating and keeping jobs in rural America. For the past 4 years I have served as CEO/General Manager of Bloomingdale Telephone Company, which is headquartered in Bloomingdale, MI. Prior to my current position, I served for 10 years as Office Manager for Alliance Communications in Garretson, SD. I regularly work with the National Telecommunications Cooperative Association (NTCA), which represents small, community-based telecommunications cooperatives and other small telecom providers in Washington, D.C. My remarks today are on behalf of Bloomingdale Telephone Company, as well as NTCA, the Organization for the Promotion and Advancement of Small Telecommunication Companies (OPASTCO), and the Western Telecommunications Alliance (WTA) and their collective several hundred small community-based members that provide a variety of communications services throughout the rural far reaches of the nation.

We believe our industry is uniquely qualified to participate in today's discussion because we are consumer-centric small businesses leading the way in deploying high-speed, sustainable broadband to rural America. Bloomingdale, similar to about half of the nation's small, community-based rural providers, is a commercial company—privately held by 264 stockholders. Family or commercially-owned rural providers are consumer-centric because they are locally owned and operated. Likewise, in the cooperative structure that makes up the other half of small rural providers, the consumers are also the owners, so every choice is viewed from both an owner and a consumer perspective—the two are truly one and the same.

Bloomingdale's top priority has always been to provide every one of our consumers with the very best communications and customer service possible at affordable rates that stimulate adoption. Bloomingdale has several lines of business, including ILEC, CLEC, ISP and Cable TV. Make no mistake—while our headquarters are in Bloomingdale, we in fact serve over 2,500 customer lines across our 125 square mile rural service area that is spread across the southwest corner of the State of Michigan. This constitutes about 20 customers per square mile. We employ a total of 25 people and in 2011 our annual operating revenue was about $5.9 million. Our service area is rural and sparsely populated, requiring great effort to get advanced services to our customers. In our industry's parlance, as a small rural provider of this size, Bloomingdale is a Tier 3 carrier.

Let me give you a quick snapshot of how Bloomingdale compares with several other industry entities. Verizon, AT&T, and CenturyLink are classified as large, or

Tier I carriers, and also operate in multiple states. Verizon has a workforce of nearly 194,000 and annual revenues of $110 billion. AT&T has a workforce of 256,420 and annual revenues of more than $126 billion. CenturyLink has a workforce of 47,500 and operates in 37 states. Clearly with operations of this size, the priorities, objectives, and sources of capital are generally far different from Bloomingdale's community-based limited-scale approach to doing business.

The entrepreneurial spirit of Bloomingdale is representative of our approximately 1,100 small rural counterparts in the industry, who together serve 5% percent of the U.S. population across approximately 40% of the nation's geographic land mass. Like the vast majority of our rural colleagues, Bloomingdale has been an early adopter of new technologies and services. In 2005, Bloomingdale upgraded its network to ADSL2+ (Fiber-to-the-node). Bloomingdale currently has 1.5 Megabit broadband service available to 100% of our ILEC service area, 3 Megabit broadband available to 95% of our service area, and up to 15 Megabit broadband available to 50% of our service area. We have many residential customers with 20 Megabit service. The CLEC exchanges are Fiber-to-the-Home. This fiber connection allows for nearly limitless amounts of bandwidth. We know our customers will require more and more bandwidth and have built a network that will supply it.

Time would fail me to tell of every opportunity created thanks to our long partnership with RUS—whether it's the fiber we laid in the Paw Paw, MI exchange that delivers 100 Megabit Internet service to the local schools and county courthouse or the customer who no longer has to travel over 8 hours a week to the hospital for his heart condition because he can have his test done over the Internet via his fiber connection. One 10 year old young man from Paw Paw began chemotherapy last fall. To avoid falling behind in school he uses his new fiber connection to Skype into his classroom and communicate with peers by voice, video, and instant messaging. If only we could've completed a recent RUS project faster. One family was planning to relocate from New York to open a home-based business. At closing they discovered that there was no broadband available and cancelled the purchase.

Bloomingdale is a carrier-of-last-resort and has always operated under the premise that if someone wants service in our service area, then we do whatever it takes to provide the would-be customer with that service. Ever since Bloomingdale began operating in 1904 we've been proud to serve as the only provider to some of the most rural areas of Michigan while larger carriers avoided investments in such areas and chose to serve only the most profitable and densely populated towns. Because of such commitment, and with the aid of key rural development programs and universal service support, rural Americans throughout Bloomingdale's service area, and indeed throughout the markets of NTCA, OPASTCO, and WTA members, are enjoying universal voice service, access to mobile, video, and broadband Internet services, and enhanced emergency preparedness.

II. The Benefits of Rural Carrier Investments and Operations Flow to the Entire Economy

The American economy runs on broadband. As the Federal Communications Commission (FCC) stated in its February 2011 Notice of Proposed Rulemaking for Universal Service Fund (USF) and intercarrier compensation (ICC) reform:

> Ubiquitous broadband infrastructure has become crucial to our nation's economic development and civic life. Businesses need broadband to start and grow; adults need broadband to find jobs; children need broadband to learn. Broadband enables people with disabilities to participate more fully in society and provides opportunity to Americans of all income levels. Broadband also helps lower the costs and improve the quality of health care. As important as these benefits are in America's cities—where more than ⅔ of residents have come to rely on broadband—the distance—conquering benefits of broadband can be even more important in America's more remote small towns, rural and insular areas, and Tribal lands. Furthermore, the benefits of broadband grow when all areas of the country are connected. More users online means more information flowing, larger markets for goods and services, and more rapid innovation.[1]

[1] *Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing a Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up:* Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, WC Docket No. 10–90, GN Docket No. 09–51, WC Docket No. 07–135, WC Docket No. 05–337, CC Docket No. 01–92, CC Docket No. 96–45, WC Docket No. 03–109, FCC 11–13, at para. 3 (2011) (NPRM).

The National Telecommunications and Information Administration's November 2010 report titled "Exploring the Digital Nation: Home Broadband Adoption in the United States" stated that home broadband usage went from 51% in 2007 to 64% in 2009.[2] Sixty-six percent of urban (metropolitan) Americans subscribe to broadband at home, as compared with 51% of rural (non-metropolitan) Americans. The numbers demonstrate that broadband is being deployed to rural America. USDA's National Agricultural Statistics Service's August 2011 report on Farm Computer Usage and Ownership revealed that 62% of U.S. farms now have Internet access.[3] Broadband DSL is now utilized on 38% of U.S. farms. Small, rural providers have made basic levels of broadband service available to over 90% of rural consumers in their sparsely populated service areas.

At the same time, USDA's Economic Research Service reports that over the course of the past decade the rural population has grown at less than half the rate of the metropolitan population. And as Chairman Johnson has stated in the past, many rural communities are experiencing "more deaths than births." Broadband deployment and adoption in rural America must increase at a faster rate in order to reverse the trend of rural flight. As more and more commerce, government services, and education moves over broadband, it will only become more important to provide this service to rural areas to bolster economic activity that will be necessary to attract and retain more Americans.

The job-creating benefits of broadband have been reported far and wide. Recent studies conclude that every one percentage point increase in broadband penetration in a state increases overall employment by 0.2% to 0.3% a year.[4] Further, an area moving from no broadband providers to one to three providers during the years 1999 through 2006 realized 6.4% employment growth on average.[5]

Small, rural community-based telecommunications providers alone contributed $14.5 billion to the economies of the states in which they operated in 2009.[6] The rural telecommunications sector supported 70,700 jobs in 2009, both through its own employment and the employment that its purchases of goods and services generated.

So, we know that a robust broadband infrastructure is critical to economic development. We know from a technological standpoint that all broadband networks, whether wireless or wired, ultimately rely upon the wired network. And we know that wired networks provide the capacity to support the type of applications that this nation critically needs: telehealth, distance learning, civic participation, and interstate and global commerce. But delivering such capabilities in rural areas is not an easy task—the vast distance and sparse populations make the costs of building broadband-capable networks in rural areas quite high.

This is why rural development programs, such as those administered by the RUS, are essential to promote broadband deployment. But even if such programs help promote the deployment of rural networks, those networks are of no use if they cannot be maintained and upgraded, or if the services offered over them are unaffordable to consumers because the underlying costs of operating in rural areas as so high. This is why it is so important to recognize the key role that other programs, such as the statutorily-mandated USF, play in allowing rural consumers to have access to reasonably comparable services at reasonably comparable prices. In short, it takes an ongoing and sustainable public-private partnership—one that recognizes the costs of both building and maintaining networks—to enable access to affordable, high-quality access in hard-to-serve corners of rural America.

III. The Rural Utilities Service (RUS) Programs

RUS telecommunication programs have been a great success story and have helped provide voice and broadband service to millions of Americans where it would not otherwise be available. These programs, which have been lending for broadband capable plant since the early 1990s, have helped advance state-of-the-art networks to rural Americans left behind by providers unable or unwilling to serve low population density markets. Reliable access to capital helps rural carriers meet the broadband needs of rural consumers at affordable rates. RUS financing is often the only source of capital for our rural carriers now that marketplace uncertainty has forced lenders to drastically tighten their lending.

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[2] (n.d.). Retrieved from website: *http://www.esa.doc.gov/sites/default/files/reports/documents/report.pdf.*

[3] (n.d.). Retrieved from website: *http://usda01.library.cornell.edu/usda/current/FarmComp/FarmComp-08-12-2011_new_format.pdf.*

[4] (n.d.). Retrieved from website: *http://www.brookings.edu/~/media/Files/rc/papers/2007/06labor_crandall/06labor_crandall.pdf.*

[5] (n.d.). Retrieved from website: *http://www.ppic.org/content/pubs/report/R_110JKR.pdf.*

[6] Kuttner, H. Hudson Institute, (2011). *The economic impact of universal telecommunications: The greater gains.*

Unfortunately, the success, momentum, and economic development achieved in recent years with the help of RUS telecommunication programs have been put at risk as a direct result of the regulatory uncertainty created by the FCC's ongoing USF and ICC reform proposals. RUS lending, USF support, and ICC are inextricably linked (99.2% of RUS Telecommunications Infrastructure borrowers receive high cost USF support) and unwise changes to USF could put billions of RUS loans at risk of default and in fact have already resulted in a dramatic reduction in program applications and rural investment.

According to the FCC's National Broadband Plan, 14 million people in seven million housing units do not have access to terrestrial broadband capable of download speeds of 4 Mbps, and that such housing units are more common in rural areas. Using the National Broadband Map's Broadband Statistics Report, it has been pointed out that 98% of rural Americans (100% urban) have access to "broadband" download speeds greater than 786 kbps, and some claim the loan programs are therefore no longer needed. However, the same report shows that only 79.2% of rural Americans (99% urban) have access to speeds greater than 6 Mbps and only 70.8% rural (97.6% urban) have access to speeds greater than 10 Mbps, which are minimum download speeds more commonly considered necessary for rural areas to compete in the modern broadband world.[7]

There can be no question regarding the essential nature of the RUS Broadband Loan Program and the need to avoid reforms that might create unintended consequences. However, NTCA and its partners representing the rural telecom industry welcome discussion about ways to further improve the RUS Broadband Loan Program and offer several suggestions and observations below.

- Interim rules, which were required by programmatic changes to the Broadband Loan Program in the 2008 Farm Bill to better target resources, were not put in place until March 2011 (during which time no new loans were approved). Since that time, the FCC's adoption and ongoing consideration of changes to USF have created regulatory uncertainty, dramatically reducing both the number of new Broadband Loan Program applications and RUS's ability to finalize rules and evaluate and approve new loans. As a result, the Broadband Loan Program has been at almost a complete standstill since 2008. With virtually no new loan projects available to assess the results of the 2008 Farm Bill's reforms, is now the time to place new restrictions on the Broadband Loan Program? Though some providers that don't typically serve rural areas want to dramatically restrict the program, it was inoperable for its first 3 years and has been frozen by regulatory uncertainty for the past year.
- Minimizing subsidized "overbuilds" in areas where broadband already exists should remain a top goal for RUS. However, the impact of certain reform proposals to further restrict the Broadband Loan Program must be carefully evaluated. One such proposal would encourage RUS to not provide a loan for any area where more than 25% of households already have access to broadband. Under such a scenario, a provider wishing to receive a loan to serve a rural area where 74 out of 100 people do not have access to broadband would not qualify for a loan. It should also be noted that in rural areas, such a population could be spread over miles and miles. Is eliminating the Broadband Loan Program as an option to help provide service in such a situation the right answer for households and businesses that remain unserved year after year and have no prospect for broadband service in sight? The concerns expressed around this issue have been loudly heard, and the Secretary of Agriculture's discretion is an appropriate barometer for such decision-making.
- We support an efficient method by which existing providers can be notified of submitted applications that may affect the area(s) they serve without being required to check a website periodically. One method may be to encourage existing providers to register for an email alert system whereby they would receive an electronic notice whenever an applicant seeks a loan in the state or states that they serve.

[7] *See Connect America Fund,* WC Docket No. 10–90, *A National Broadband Plan for Our Future,* GN Docket No. 09–51, *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07–135, *High-Cost Universal Service Support,* WC Docket No. 05–337, *Developing an Unified Intercarrier Compensation Regime,* CC Docket No. 01–92, *Federal-State Joint Board on Universal Service,* CC Docket No. 96–45, *Lifeline and Link-Up,* WC Docket No. 03–109, *Universal Service—Mobility Fund,* WT Docket No. 10–208, *Report and Order and Further Notice of Proposed Rulemaking,* FCC 11–161, at para. 108 (rel. Nov. 18, 2011) (Final Order) (establishing a benchmark of 6 Mbps downstream and 1.5 Mbps upstream for broadband deployments in later years of CAF Phase II).

- We oppose a lesser speed standard for would-be borrowers who seek to deploy wireless networks. In the interim rules, RUS established the minimum rate of data transmission as 3 Mbps for mobile broadband and 5 Mbps for fixed broadband. Attaching a value and setting a lower data transmission requirement to mobile service is contrary to the technology neutrality statutory directive.
- Priority should be given to applicants who are proposing projects that feature scalability—meaning those that can be easily and relatively inexpensively upgraded over time to reflect increased consumer demand for more bandwidth, and thus ensure optimal use of the network asset over the life of the applicable broadband loan.

RUS programs are not duplicative of other Federal programs such as USF. RUS telecommunication programs provide up-front capital to build out to new customers and to upgrade networks. USF, by design, provides for cost recovery for the ongoing operation of the network and maintenance, and is at bottom intended to make sure that the prices consumers pay for service in rural areas are affordable—that is, "reasonably comparable" to those in urban areas. Put another way, USF helps make sure that consumers can afford to "adopt" service and make continuing use of the network over time. Finally, it is worth noting that RUS telecommunication loan program projects are paid back with interest—creating a win/win situation for rural broadband consumers and for taxpayers.

Some opponents of the RUS telecommunication programs and USF point to their ability to provide broadband service without RUS loans or USF cost recovery. However, it's important to note that these providers often fail to provide service to the most high-cost "last mile" households and businesses, focusing instead on the concentrated areas of a community or service area. On the other hand, rural telecom providers often have carrier-of-last-resort obligations that require them to serve all customers in their service territory—not just the more densely populated, profitable towns and cities.

Without carriers-of-last-resort such as Bloomingdale reaching out into the "country" outside the towns with the help of this public-private partnership, we would have even more unserved consumers in rural America—and the challenge of achieving universal broadband would be greater than it already is. And if this public-private partnership is undermined, then small rural telcos may have no choice but to likewise abandon the "countryside" and retreat to serving just within the "in-town" boundaries too. Last year, during debate on the FY 2012 Agriculture Appropriations Bill, the House of Representatives recognized the value and continued importance of RUS funding to the delivery of affordable communications *throughout* rural areas and voted in favor of a floor amendment to continue funding the RUS Broadband Loan Program.

IV. The USF & ICC Mechanisms Are Essential to Broadband Availability, Service Quality, and Adoption in Rural Areas

USF and ICC have long played a role in connecting all of America by supporting telecommunication services in rural areas. As Congress recognized in the Telecommunications Act of 1996, these areas need predictable, sufficient and specific support to ensure the availability of affordable, high-quality services for all consumers. High-cost USF is a program that enables providers to deploy and operate advanced networks in places where low customer density, vast distances and rugged terrain deter even the most optimistic business cases.

Without USF support to supplement customer revenues, rural carriers, who serve an average of ten customers per square mile, would be forced to drastically reduce service, exit the outlying parts of rural markets, or charge retail prices that no consumer could realistically afford. Such outcomes would be inconsistent with longstanding national statutory policy. These networks connect rural communities and outlying farms and ranches with the rest of America and the world. Even if a wireless carrier were to operate in some portion of a rural area, it could not deliver high-quality broadband without the robust underlying capacity of the networks provided by these small entrepreneurial community-based carriers.

With the help of USF and ICC, rural carriers provide near-universal voice service to all Americans and have increased broadband penetration to 92% of their consumers with only 3% growth per year in USF support over the past several years. But in the majority of cases, the broadband is only DSL speed and does not reach the speed—4 Mbps downstream/1 Mbps upstream—that the FCC has now identified as a target level of "universal service." The time has come to update these important network support mechanisms to ensure that everyone can participate in the economy made possible by a nationwide integrated advanced communications network.

The FCC released its USF/ICC reform order on November 18, 2011, with the aim of transitioning the program to explicitly support broadband service in rural America.[8] At the urging of the FCC, the rural carriers and larger providers reached agreement on a Consensus Framework for reform last summer that would have kept the fund at its current level while supporting faster broadband to more Americans.[9] The parties to the Consensus Framework made many difficult compromises to reach an agreement in the hope of achieving universal broadband service and gaining some regulatory certainty. However, the FCC's order: (1) failed to adopt any provisions specifically promoting broadband service in rural carriers' service areas, (2) cut existing cost recovery mechanisms for rural carriers retroactively, and (3) proposed a further notice of rulemaking with the potential for more cuts.

In sum, rural providers will be expected to do more in terms of broadband deployment and service offering with less opportunity for cost recovery, and we do not get regulatory certainty because the additional cuts proposed within the further notice hinder lending and investment. This "regulatory overhang" is undermining job creation, network investment and the sustainable quality of broadband services in wide swaths of rural America. By the FCC's own admission, three out of ten carriers will lose more than 10% of their existing USF support under the order, and more than half will lose some level of support. And this is only in Year 1—the picture does not improve as the cuts phase in and become deeper over time.

We believed that with all of the facts before them, the FCC would have taken advantage of the opportunity to make bold recommendations, including a call for a national commitment to invest in and maintain state-of-the-art communications technologies throughout all of America. Unfortunately, the agency's narrow focus on delivering broadband to completely unserved areas fails to acknowledge that America's most rural areas can only continue to be served with the help of ongoing high cost support.

Rural providers sincerely hope that the FCC will respond to the recent calls of more than 60 Members of Congress to expressly decline to act on several aspects of its further notice and instead signal to service providers, lenders, investors, and consumers that it will allow adequate time for adjustment to the changes already made in its order. Moreover, since carriers cannot "undo" loan commitments or "tear out" existing networks, the FCC should make clear that any caps or other limitations on cost recovery already adopted in its order will be applied prospectively. As it has done for consumers in other areas, the FCC should adopt a Connect America Fund that will provide additional funding for broadband-capable deployment in areas served by rural providers. Reforming USF and ICC properly is essential to achieving our national goal of universal broadband access and to the livelihood of thousands of job-creating small businesses that need broadband to compete in a global economy.

V. Broadband Gains

We can all be proud of our nation's broadband progress over the past decade and the opportunities that broadband creates for rural America to compete and thrive. This success has only been possible due to the unique cooperation that has existed between the industry, the American people, and policymakers. Together, through a spirit of entrepreneurship, a can-do attitude, and a deep national confidence, the appropriate mix of programs and policies have been cultivated and maintained to ensure widespread broadband deployment and adoption.

This commitment and partnership will be essential to America's quest to secure and maintain a level of global broadband pre-eminence. To underscore this assessment I draw the Committee's attention to a May 2009 U.S. Government Accountability Office (GAO) report that, among other things, considers the Federal Government's approach to broadband deployment.[10] In the study's opening remarks it notes that according to government officials, "the Federal approach to broadband deployment is focused on advancing universal access."

The GAO report goes on to state that historically the role of the government in carrying out a market-driven policy has been to create market incentives and remove barriers to competition, while the role of the private sector has been to fund broadband deployment. It continues that under this policy, broadband infrastructure has been deployed extensively, yet doing so in rural areas is more difficult and in some instances gaps remain, primarily due to the limited profit potential associated with such initiatives. Industry stakeholders credit RUS and USF with helping to in-

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[8] *See* Final Order.

[9] *See* Letter from Walter B. McCormick, Jr., United States Telecom Association, *et al.,* to Chairman Genachowski, FCC, WC Docket No. 10–90, *et al.* (filed July 29, 2011).

[10] (n.d.). Retrieved from website: *http://www.gao.gov/new.items/d09494.pdf*.

crease broadband deployment and adoption, and that to achieve universal access, support of this nature will be essential in the future.

Despite the long history of success associated with these programs, a small but vocal minority of voices exists that refuse to accept this reality. Throughout this debate over the government's role in broadband deployment, the rural sector of the industry has routinely been directed to "think outside the box" in a search for more economical solutions to communications infrastructure deployment. If I do nothing else here today, it is my overarching desire to ensure that everyone participating and listening to this discussion ultimately leaves with the recognition and understanding that rural carriers always have and always will "think outside the box." Truly, they have no other choice.

What segment of the industry was the first to completely convert to digital switched systems? What segment of the industry was a pioneer in providing wireless options to their hardest to reach customers? What segment of the industry produced the first company to deploy an all-fiber system? What segment of the industry was the first to offer distance learning and telehealth applications? What segment of the industry was an early leader in providing cable-based video, then satellite video, and now IP video to their markets? What segment of the industry quickly moved into Internet service provision in the early stages of the Internet's public evolution? And what segment of the industry continues to lead in the deployment of high-speed broadband capable infrastructure?

In every instance the answer to those questions is the small rural segment of the communications industry. Rural carriers are small businesses dedicated to providing opportunities to other small businesses and individuals that might otherwise have to compete on an unlevel playing field. This is possible because cooperative and commercially-structured systems are owned and operated by members of the local community. Clearly, these are entrepreneurs who care about their communities and their nation and are continually "thinking outside the box."

VI. Conclusion

Regardless of whether consumers are focused on voice, video or data in tomorrow's world of communications, they will require the underlying infrastructure to ensure their communication gets to its destination. America stands at a crossroads between a narrowband and broadband world. The choice is clear. The rural industry has long been the leader in deploying advanced telecommunications services to America's rural areas, and that success is built upon a foundation of public-private partnership that has worked for decades. To make sure this progress is updated and remains relevant in a new era of communications, rural providers and the rural associations are eager to continue working with you to move forward aggressively to fulfill the national objective of making broadband universally available as is envisioned by so many and indeed mandated by statute. Thank you for your attention to this matter.

The CHAIRMAN. Thank you. I am going to go out of order and allow the Ranking Member, who has other legislative commitments, to ask a couple questions and then we will take the rest in order. Mr. Costa?

Mr. COSTA. Thank you very much, Mr. Chairman.

Mr. Bahnson, I think you confirmed what I said in my opening statement about the challenges of capacity for broadband and the availability of broadband in our rural communities. I have members here that said 95 percent of households, it is available, but their take rate is only 60 percent. And instead of subsidizing competitors—because I appreciate the public-private partnership that you spoke of in your closing statement—in areas where broadband is already available, shouldn't the money be better focused on providing under-served areas, going forward, to provide access? And could you also talk about bandwidth and access for agriculture for blue technologies?

Mr. BAHNSON. Well, the area I serve is very agricultural, a lot of blueberry farmers, cherry farmers, peach farmers, apple farmers, and they use our technology everywhere now. We are talking about doing specific builds to packing plants for just those purposes. So

I would absolutely agree with you that it is crucial for those areas. Getting that service to those areas is extremely expensive, and without help from outside sources, it is very difficult for us to do that. You just can't build a business case to take facility to a place where there just aren't a lot of people there to buy that service from you.

Mr. COSTA. Dave Rozzelle do you want to comment on this or not? You don't have to.

Mr. ROZZELLE. In that case I will pass given the time constraints.

Mr. COSTA. Okay. I appreciate that. Finally, my last question, Mr. Dunmire with NRWA, you talked about the importance—and the previous witness did—of safe drinking water and whether these grants and loans have provided a positive role. And I have a number of communities like that but I have a different question. And some of the communities in terms of compliance with Federal regulations or regulatory regimes under the Environmental Protection Agency not just with this Administration but with previous Administrations—I mean this has been a bipartisan problem—when you have naturally occurring contaminants like arsenic or benzene. Thirty years ago we could trace parts per million but now we developed an ability to trace parts per billion and now parts per trillion, it just seems to me that the amount of water you have to consume to be impacted by parts per trillion is rather unimaginable that it would impact your health.

And instead of zero risk—and there is no zero risk in terms of protecting health and safety—I mean I have had communities that have had to drill new wells at a million and a half dollars—for a small community, that is a big price tag—when the water has been that way for millions of years. I mean in some cases we have contamination that we created with the likes of DDT and other kinds of things with past practices. But it just seems to be change in the regulatory regime would be more helpful than trying to create some sort of a zero tolerance.

Mr. DUNMIRE. Ranking Member Costa, you are preaching to the choir. That has been our argument with primacy agency in Illinois, which is IEPA. For years and years and years, they approached it with a common-sense view and a number of years ago they went through an audit from U.S. EPA. It was not a pleasant audit. Our friends in Springfield at IEPA now are forced to enforce the U.S. EPA regulations without any waivers, no common sense to it. Like you have pointed out, there have been countless systems, predominantly in north central Illinois to northern Illinois that had the radon problems, arsenic problems that have been forced to put in added treatment, very, very expensive added treatment essentially doubling and tripling the water rates of their customers.

Mr. COSTA. Let me just close. And we, on a bipartisan basis, need to figure out how to work this. Common sense tells you that in any sort of risk assessment and risk management regime that you have to assess the management of the risk *versus* the assessment of how big of a risk that it is. And on a cost-comparative basis—and this is the common sense that gets lost—we never take into an evaluation the criteria on how do we get the best bang for our buck whether it be Federal, state, or local dollars on limiting the risk to our communities where we have a responsibility to minimize the risk.

But certainly, we never look at it in a vacuum. When a person gets in a car and backs out of their driveway, they are much more likely to have a higher risk of an accident, God forbid, that would result in injury. And we accept that risk *versus* how much water you have to consume daily for 80 years on tracing parts per billion of naturally occurring arsenic that has been in the water forever.

So I will get off my soapbox but it is a challenge that we have to address in some fashion.

The CHAIRMAN. Thank you, Mr. Costa. I will defer my questions to the end.

Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

And Mr. Rozzelle, I live in a small community that is very close to a larger community, and you have been fairly critical of the RUS loan program and one of the words you continue to use is *unserved.* Would you give me the definition of *unserved?* And specifically what I am getting at here is unserved *versus* under-served.

Mr. ROZZELLE. Congressman Scott, the National Broadband Plan defined *broadband* as 4 megabits down, 1 megabit up.

Mr. SCOTT. Okay.

Mr. ROZZELLE. If a household doesn't have that available to it, passing it, then it would not have broadband under the National Broadband plan definition.

Mr. SCOTT. Okay. Would you agree that there is much more competition in metropolitan areas than there is in rural areas?

Mr. ROZZELLE. I would agree that generally in larger communities there are more carriers providing broadband service than there are in rural communities, yes, sir. I would agree with that.

Mr. SCOTT. And would you agree that in those competitive markets that, because of the competition, the consumer pays less for the same service than they do in the more under-served areas of the state?

Mr. ROZZELLE. Congressman Scott, I would say this in relation to Suddenlink, with which I am obviously very familiar, and that is that we spent a great deal of money to bring very high-speed broadband as deeply as we could into our footprint in terms of densities——

Mr. SCOTT. Yes.

Mr. ROZZELLE.—and in our smaller communities which have broadband some of those communities pay more on an equivalent service basis than our larger communities and some pay less.

Mr. SCOTT. And I certainly believe you to be telling the truth, but my experience has been that in the rural parts, I paid significantly more than I paid at my business, for example, which was actually in a competitive market and my home was in the rural market. I did not have a choice in providers at my home but I had a choice at the business. I paid significantly less for the service.

Mr. ROZZELLE. In most of our markets on the broadband side we are competitive with the incumbent telephone company generally and in a number of them we are also competing with other providers who are present. And so with all due respect, it really depends on the community as to the level of competition that we face.

Mr. SCOTT. Where I am from I have seen a very serious reluctance of major corporations to move into the more rural parts. It seems to me that they, if you will, cherry pick the more profitable areas and that may be part of their business strategy where your local rural telephone company, which is traditionally family-owned——

Mr. ROZZELLE. Yes.

Mr. SCOTT.—is willing to serve in more community-oriented——

Mr. ROZZELLE. Suddenlink began life as a company that served entirely rural communities and grew to be the company that we are today. So I certainly understand what you are saying. And I represent here a group of operators at NCTA, some of which serve extremely small communities, and they are also family-owned.

Mr. SCOTT. Thank you very much.

Mr. Bahnson, would you like to comment on the loan program and the value it adds to bringing competition to the rural markets or to the rural consumer?

Mr. BAHNSON. To go back to your earlier question, I would just say yes, it is cheaper when there is competition. There is no doubt about it.

We couldn't do the things that we have done in my company if we wouldn't have had RUS as a partner. It just wouldn't be possible. You just can't make the money work. I need that kind of help to serve the people we are trying to serve. And the area I am in is extremely small. I mean the towns that those others have talked about would be considered pretty good-sized towns to the town I serve in.

Mr. SCOTT. Thank you, sir.

Mr. Chairman, I don't have any time remaining but I will yield back to you.

The CHAIRMAN. Thank you.

Mrs. Hartzler?

Mrs. HARTZLER. Thank you, Mr. Chairman.

I believe you were here with the first panel and heard my questions about the needs for rural infrastructure, the challenges we have there. In your testimony, Mr. Dunmire, I see that you outline a little bit some of the demand and the amount of money that was allocated for rural infrastructure projects and as well outlined that at the end of 2011 and 415 completed applications—which no funding was available—to address the backlog you think we need $3 billion. Is that correct?

Mr. DUNMIRE. Yes, ma'am. That is the applications that were in process total up to that $3 billion.

Mrs. HARTZLER. Of those applications, could you give me a rough estimate, kind of break down the causes for the need for it? Some is just the aging of the infrastructure. The water lines, the sewer lines were put in place in the 1950s and 1960s. Wouldn't you say part of it is just aging? I would really want to know how much you think is due to the EPA's ever-changing standards that are putting a new burden on our rural communities and forcing them to have to upgrade their sewer systems and their water systems. Could you give me some sort of a breakdown in the costs for the needs of these projects?

Mr. DUNMIRE. I wish I could give you an answer here today, but unfortunately, I cannot. But I will promise you this: we will check into that and we will get the information to you as soon as possible. But it is a combination of all of the factors that you have just mentioned.

Mrs. HARTZLER. Yes. Certainly, we can't do anything about the aging but the projects in my district, the ones that frustrate the most is when you have a system that is working—and Ranking Member Costa alluded to it—it is safe, it is working, and then here the government comes in and says you need to upgrade your sewer plan or you need to do this or you need to do that, which costs millions of dollars which these small towns don't have and then is forcing a burden on us as the Federal Government to have to have the resources to help supply that. And so if you could help provide us with some of that information that gives us the tools we need to be able to fight that here and try to push for commonsense regulations that will ensure safety but yet also use our tax dollars wisely. So I really appreciate that. I appreciate what all of you are doing for rural America. As a farm girl from Archie, Missouri, I appreciate all of what we can do for rural America. Thank you.

Mr. DUNMIRE. Okay. If you would allow just 1 second——

Mrs. HARTZLER. Well, sure.

Mr. DUNMIRE.—to respond, the water operators and wastewater operators that I represent, there is nobody out there that would want to step up to the plate and make sure the water is more safe to drink——

Mrs. HARTZLER. Sure.

Mr. DUNMIRE.—and the effluent of their wastewater plants is not damaging the environment than the operators that I represent. However, when it comes to the—and I use this term not lightly—frivolous——

Mrs. HARTZLER. Yes.

Mr. DUNMIRE.—regulations that seem to be coming our way, it just gets to be too hard of a job for the small municipalities out there.

Mrs. HARTZLER. Absolutely. Thank you for your——

Mr. DUNMIRE. Now I will get off my soapbox.

The CHAIRMAN. Thank you, Mrs. Hartzler.

Mrs. HARTZLER. Thank you.

The CHAIRMAN. And my friend from Illinois, Mr. Schilling.

Mr. SCHILLING. Thank you, Mr. Chairman. And I also want to thank you for your great service not only to our state but also to our country and you have been a great leader on the Agriculture Committee.

So I would first like to address Mr. Dunmire. First, it is great to see you again, sir, just want to thank you for the great work you do for our rural communities. And I know that we serve over 1,700 total is the amount throughout the state. So thank you for that.

I think everyone in the room is aware of our fiscal situation. We have cut our own budgets here in the House by 12 percent. I think the Agriculture Committee has really stepped up to the plate when it comes to spending and saving debates. So it is great.

But with that in mind, with the limited resources we have, how would water applications fit into the regional concept discussed today, particularly in the light of what we have talked about is the $3 billion backlog?

Mr. DUNMIRE. Was that directed towards me?

Mr. SCHILLING. Yes, sir.

Mr. DUNMIRE. Okay. Well, I believe a little bit of a Band-Aid approach has already been put in place. Back in August of last year, USDA and EPA—U.S. EPA I should say—signed a Memorandum of Agreement on improving sustainability of rural water and wastewater systems. And a key component of that is the promotion of system partnerships. As Mr. Costa pointed out earlier, this isn't a one-size-fits-all. And there are instances in the State of Illinois where we don't really call it regionalization, more as a consolidation.

And sometimes it is more economically feasible to look at your neighbors. If they are experiencing the same problems, going to have to build a water treatment facility or a wastewater treatment plant, it makes all the sense in the world to build one a little bit bigger, more cost-effective. Not always do they see eye to eye. And this is where Mr. Stewart was alluding earlier that sometimes it takes somebody to take them by the hand, lead them from cradle to grave, get them in the same room together, get them talking. This isn't you against me, this is a common goal that is going to ultimately save both of our municipalities and our customers—if you will—money.

Mr. SCHILLING. Very good. Thank you for that.

Mr. Bahnson and Mr. Rozzelle, we have several cable and telephone cooperatives in our district, including McDonough Telephone Cooperative and then Mid-Century Telephone Cooperative that serve thousands of miles of rural area in western Illinois. I meet with them quite regularly and it seems every time I do, they constantly have a new rule or regulation coming from the FCC that could potentially prevent broadband expansion. This doesn't provide them for much certainty to invest in new technology or to expand their broadband access. How much of the reluctance for investment inferred by the studies you mentioned in your testimony is actually due to the FCC reforms?

Mr. BAHNSON. I think probably the best example I can give you is I was recently at a managers' meeting with small telephone companies. There was probably 100+ managers there. As we talked about what is going on, I think probably the common thread is we don't know what is going on right now. We just can't make investments. It is not a good idea for our company. And that is pretty scary because we were talking earlier about 4 megs/1 megs in terms of those speeds. My consultants tell me by 2015 consumers are going to want 100 megs at their house. I don't know if that is true or not, but if it is, we have a huge challenge in front of us and we are afraid to make the investments to get there.

Mr. SCHILLING. Very good. With that, I yield back my time.

The CHAIRMAN. We thank you. I want to conclude I guess by thanking this panel and the other panel for their testimony. I would ask are there any members of the first panel still here? I don't believe there are. Okay. All right. You can even feel free, even though it is not in order, to respond to my concluding question if you desire.

As I listen to the testimony today, first of all, I was impressed by your breadth of understanding, your commitment to the values that frankly most of the Members of this Subcommittee on both sides share, and I am grateful for your being here. What occurred to me is that we are here to talk about the formulation of the 2012 Farm Bill rural development programs, excellent testimony and I appreciate it, but we all recognize—I do, you do, and every Member of this Subcommittee does—that this Subcommittee and the other five Subcommittees of the Agriculture Committee, as well as every committee in the U.S. House and Senate is going to have to engage in what we individually call shared sacrifice. We are not going to balance the budget, we are not going to deal with the deficit and the debt unless we all recognize that every single component of what the Federal Government does has got to be reexamined.

And so my question for you is, as articulate as you have been on advocating for programs that still cost money, if you were in my position or in the position of anybody in Congress or the President, where would you make cuts and save money to engage in this whole process of shared sacrifice that is going to be necessary in order for us to dig ourselves out of the $16.5 trillion hole? Any thoughts? Yes, sir.

Mr. LARSON. Well, Mr. Chairman, I am Mr. Larson of the National Association of Counties and our association has no specific policy on that so I speak personally to you as I think your question probably was. But I think that the issues that we have talked about today are so critical for the future of rural America, particularly the broadband, the water and the wastewater are the keys to our future success. And if we have to do without, in all due respect, sir, we now have profitability in American agriculture with commodity prices as they have been for the last couple years and for probably the near foreseeable future. I think we can take some of the funding that have been used in that portion of the farm subsidies and anything in those areas of the farm bill and redirect them into the rural development portfolio and probably have a much better impact and longer impact on rural America than a one-time check to an individual farmer. Thank you.

The CHAIRMAN. Thank you for your thoughts. Anything else?

Mr. DUNMIRE. Thank you, Mr. Chairman.

Each of the individual panelists that presented up here, on their programs they were always asked how do you justify who gets money and who does not get money? You know, how do you weigh the need that is out there? I submit that maybe Congress should go back and look at what really is working and what does not work and to add to the agricultural that Mr. Larson has discussed, defense is another huge elephant in the room that could probably be cut as the wars wind down.

Mr. BAHNSON. I guess one thing I would just like to point out is that my company fully intends to pay those loans back and I am using your money right now but you are going to get it back and on the one loan I talked about earlier, you are going to get $2.5 million back. And to me that seems like a total win-win situation. The people who live in my rural area getting the services they need now and the government is going to get their money back plus interest. That just seems like a win-win to me.

The CHAIRMAN. Okay. Well, I appreciate it. I appreciate the input. We have a tough task ahead of us. I think the Chairman of the Committee has an obligation to remain judiciously neutral in terms of what we are doing. I would only say, speaking on behalf of this Subcommittee I believe and the whole U.S. House, we are going to have to make some cuts, we are going to have to make some savings, none of which are going to be painless. We all need to engage in that process or we are never going to deal with the issue that we have.

So with that I would thank the witnesses for their testimony, excellent testimony today. I appreciate the great job, as always, that our Majority staff—as well as the Minority staff—do. And I don't have any concluding statement to make. Mr. Costa is going into other let's say business and so I would simply say that under the rules of the Committee the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary responses from the witnesses to any question posed by a Member.

This hearing of the Rural Development, Research, Biotechnology, and Foreign Agriculture Subcommittee is adjourned.

[Whereupon, at 4:15 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY HON. CHARLES F. CONNER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COUNCIL OF FARMER COOPERATIVES

Applicant Name	State	Grant Type (Planning or Working Capital)	Applicant Type	Grant Amount
Thompson Farm & Trucking	AL	Working Capital		$40,050
Ozan Vineyard and Cellars	AL	Working Capital		$49,698
Cody Hopkins	AR	Planning		$98,500
Caballos y Companaros, Inc	AZ	Working Capital		$39,500
Curds & Whey Dairy	CA	Working Capital		$48,000
Pacific Coast Producers	CA	Working Capital	Farmer or Rancher Cooperative	$300,000
Farm Fresh Solutions	CA	Working Capital		$21,192
Delta Blue Blueberries	CA	Working Capital		$49,000
Rosa Brothers Milk Company	CA	Working Capital		$300,000
Blue Diamond Growers	CA	Working Capital	Farmer or Rancher Cooperative	$300,000
Ingel Haven Ranch	CA	Planning		$44,000
California Dairy Campaign	CA	Planning		$100,000
Sonoma County Vintners	CA	Working Capital		$300,000
Hog Wild for Organic Pork	CA	Planning Capital		$67,500
Bohemian Creamery	CA	Working Capital		$100,000
Top O' the Morn Farms	CA	Working Capital		$300,000
Arburua Enterprises, Inc	CA	Working Capital		$35,000
Nishimori Family Farms, LLC	CA	Working Capital		$226,284
Sunsweet Growers	CA	Working Capital	Farmer or Rancher Cooperative	$300,000
Livermore Valley Wine Country	CA	Working Capital		$208,504
Community Alliance with Family Farmers	CA	Working Capital		$45,475
Sweetgrass Cooperative	CO	Working Capital	Farmer or Rancher Cooperative	$226,000
Table Mountain Farms, LLC	CO	Planning Grant		$41,550
Aaron Christopher Rice	CO	Working Capital		$26,890
Paradise Farms Organic	FL	Working Capital		$49,500
White Oak Pastures, Inc.	GA	Working Capital		$300,000
Lil Mog. LLC d/b/a MSM Meats and Country Store	GA	Working Capital		$295,231
Laurie-Jo's Southern Style Canning, LLC	GA	Working Capital		$300,000
Lane Packing, LLC	GA	Working Capital		$300,000
Hillside Orchard Farms, Inc.	GA	Working Capital		$300,000
Flint River Farmers Cooperative	GA	Working Capital	Farmer or Rancher Cooperative	$300,000
Georgia Buffalo, Inc.	GA	Working Capital		$117,500
Jubilee Organic Creamery, Inc.	GA	Working Capital		$200,000
Cartecay Vineyards—Lawrence E. Lykins, owner	GA	Working Capital		$46,500
Marie-Laure Ankaoua	HI	Working Capital		$48,000
Hawaii Cattle Producers Cooperative Association	HI	Working Capital	Farmer or Rancher Cooperative	$58,180
Kimberly Ino	HI	Working Capital		$27,750
Kalapana Organics, LLC	HI	Working Capital		$12,000
MV Farms Inc. dba Naked Cow Dairy	HI	Working Capital		$140,000
Country View Dairy, LLC	IA	Working Capital		$86,826
Grass Run Farms	IA	Working Capital		$49,847
Unruh Greenhouses LLC	IA	Working Capital		$49,990
Iowa Hops Company	IA	Planning		$35,340
Farmer's All Natural Creamery	IA	Working Capital		$280,000
Mark Hulsebus	IA	Working Capital		$13,000
Joseph Schafer	IA	Working Capital		$300,000
Hafner, Inc.	IA	Planning		$30,225
Two Saints Winery	IA	Working Capital		$26,680
Iowa Choice Harvest, LLC	IA	Working Capital		$255,284
Joker's Wild Value Added Beef	IA	Working Capital		$49,120
Colter's Creek Winery	ID	Working Capital		$25,000
Moss Produce	ID	Working Capital		$300,000
3 Horse Ranch Vineyards, LLC	ID	Planning		$30,000
Clover Leaf Creamery	ID	Working Capital		$300,000
Idaho's Bounty	ID	Working Capital	Farmer or Rancher Cooperative	$55,180
Fish Processors Inc.	ID	Working Capital		$300,000
Lime Rock Brown Swiss Cheese, LLC	IL	Working Capital		$49,990
Justin Kilgus	IL	Planning		$10,595
Living Water Farms, Inc.	IL	Working Capital		$300,000
Marcoot Jersey Farm, Inc.	IL	Working Capital		$217,866
Russell and Elizabeth Kelsay	IN	Planning		$10,000

Applicant Name	State	Grant Type (Planning or Working Capital)	Applicant Type	Grant Amount
The Feel Good Farm, LLC	IN	Planning		$11,295
Indiana Farmstead Cheese (Steckler)	IN	Planning		$38,000
Schmidt Farms, Inc.	KS	Working Capital		$49,714
McCarty Family Farms, LLC	KS	Working Capital		$300,000
Thayer Feed, LLC	KS	Working Capital		$46,945
Jerry Brown, Brown Honey Farms, Inc.	KS	Working Capital		$300,000
Johannes Farm	KS	Working Capital		$9,400
Stone Cross Farm & Cloverdale Creamery	KY	Working Capital		$55,114
KY Sheep and Goat Development Office	KY	Working Capital		$36,400
Horsehoe Bend Vineyards	KY	Working Capital		$297,675
Evans Orchard	KY	Working Capital		$70,000
Kenny's Farmhouse Cheese, Inc.	KY	Working Capital		$246,818
Kendal Clark Farms	KY	Working Capital		$49,950
Ky Hydro Farms, LLC	KY	Working Capital		$49,999
Kentucky Freshwater Fish Inc.	KY	Working Capital		$300,000
Meat Hook Butcher Shop Steering Committee c/o Woodland Farm	KY	Planning		$67,397
Cajun Central, LLC	LA	Working Capital		$298,054
Island Bee Company	MA	Working Capital		$13,000
The Vineyards at Dodon, LLC	MD	Working Capital		$299,974
Crow Vineyard and Winery, LLC	MD	Working Capital		$48,600
Chapel's Country Creamery	MD	Working Capital		$187,000
Boordy Vineyards	MD	Working Capital		$239,200
Chesapeake Bay Dairy	MD	Working Capital		$286,398
Nancy S. and Kevin D Brandt	MD	Planning		$40,455
Carole Morison, Sole Proprietor	MD	Planning		$15,756
Knob Hall Winery	MD	Working Capital		$40,000
Basignani Winery Ltd	MD	Planning		$50,000
David Lewis Herbst	MD	Working Capital		$49,950
SuriPaco, LLC	ME	Planning		$27,450
Angela Mary	MI	Working Capital		$293,842
Sandy Acres, LLC	MI	Planning		$20,125
Berglund Farms	MI	Working Capital		$269,278
Michigan Sugar Company	MI	Working Capital	Farmer or Rancher Cooperative	$300,000
Uncle John's Cider Mill	MI	Working Capital		$42,024
VanDenBerg Farms	MI	Working Capital		$298,788
Royal Farms Inc.	MI	Working Capital		$45,094
American Ag Energy	MN	Planning		$100,000
Cedar Summit Dairy, LLC	MN	Working Capital		$300,000
Clearbrook Elevator Association	MN	Working Capital	Farmer or Rancher Cooperative	$300,000
Duluth Farmers Market	MN	Planning		$18,986
Pastures A Plenty Company	MN	Working Capital		$300,000
Smude Enterprises LLC	MN	Working Capital		$298,500
TFC Poultry	MN	Working Capital		$300,000
1Soy, Inc	MO	Planning	Farmer or Rancher Cooperative	$100,000
American Soy Asia, LLC	MO	Working Capital		$300,000
Boeckmann Family Farm	MO	Working Capital		$281,670
Janet Smith	MO	Planning		$28,000
Grove Dairy Products, LLC	MO	Planning		$50,000
Hampton Alternative Energy Products, LLC	MO	Working Capital		$210,000
Jowler Creek Winery, Inc.	MO	Working Capital		$18,363
Becky & Tim Lavy	MO	Planning		$38,000
McKaskle Farms	MO	Planning		$40,000
MOF2, LLC	MO	Planning		$100,000
Nature Friendly Conservation Branded Beef	MO	Planning		$34,000
Ortiz Farms	MO	Planning		$78,795
Show Me Energy Cooperative, LLC	MO	Planning	Farmer or Rancher Cooperative	$100,000
Soy Labs, LLC	MO	Planning		$100,000
Tuscolo Hill Vineyards	MO	Planning		$16,000
Brinson Farms, LLC	MO	Planning		$49,000
Wildwood Gin Inc.	MS	Working Capital		$300,000
Forest Free Range, LLC	MS	Working Capital		$87,326
Indian Springs Farmers Association AAL	MS	Planning	Farmer or Rancher Cooperative	$24,999
We Three Bees Apiary	MS	Working Capital		$21,500
William & Marilyn Hedstrom dba Hedstrom Dairy	MT	Working Capital		$48,530
Leonard Bernard Desmul	MT	Planning		$55,000

Applicant Name	State	Grant Type (Planning or Working Capital)	Applicant Type	Grant Amount
Little Red Hills, LLC; Cooper Burchenal	MT	Working Capital		$150,000
Sunburst Trout Company LLC	NC	Working Capital		$283,884
Chaple Hill Creamery, LLC	NC	Working Capital		$180,000
Nooherooka Natural, LLC	NC	Working Capital		$130,000
Honey Mountain Farm LLC—Chuck Moore	NC	Working Capital		$120,000
Marketing Specialty Beef from Farm	NC	Working Capital		$140,000
Cottle Strawberry Nursery	NC	Working Capital		$300,000
Sleepy Goat Cheese LLC	NC	Planning		$22,500
Smoky Mountain Native Plant Association, Inc.	NC	Planning		$20,000
Yamco LLC	NC	Planning		$100,000
Sullivan Estate Vineyard & Winery, L.L.C.	NC	Working Capital		$37,148
Dakota Pride Cooperative	ND	Working Capital	Farmer or Rancher Cooperative	$49,000
Bowdon Meat Processing	ND	Working Capital	Farmer or Rancher Cooperative	$49,500
Nebraska Waters, LLC	NE	Working Capital		$300,000
Robinette Farms, LLC	NE	Working Capital		$24,944
Feather River Vineyards	NE	Working Capital		$49,998
Hollenbeck Farms	NE	Working Capital		$258,250
Knotted Wood Distillery	NE	Working Capital		$49,950
Winery Ridge Orchard	NH	Working Capital		$41,350
Springdale Farms, Landaff Creamery	NH	Working Capital		$105,750
Miles Smith Farm, Carole Soule and Bruce Dawson	NH	Working Capital		$293,599
Salem Oak Vineyards LLC	NJ	Working Capital		$20,000
Landisville Produce Cooperative Association	NJ	Working Capital	Farmer or Rancher Cooperative	$49,975
Garden State Goat Farm	NJ	Working Capital		$36,500
Outer Coastal Plain Vineyard Association	NJ	Planning		$33,332
First Field, LLC	NJ	Working Capital		$32,000
Peppadew Gold Peppers	NJ	Working Capital		$259,625
Red Mesa Meats	NM	Planning		$12,500
Preferred Produce, Inc.	NM	Working Capital		$49,500
Tracey Hamilton	NM	Working Capital		$49,500
B.W. Cox (Owner) & Carl Livingston (Manager)	NM	Working Capital		$49,999
Edgwick Farm	NY	Working Capital		$120,000
Catskill Dudukju LLC	NY	Working Capital		$49,000
New York Beef Farmer's Cooperative	NY	Planning	Farmer or Rancher Cooperative	$36,500
King Brothers Dairy	NY	Working Capital		$49,500
Farmer Ground Flour, LLC	NY	Working Capital		$75,000
North Country Farms	NY	Working Capital		$180,638
Old Chautauqua Vineyards, LLC	NY	Working Capital		$299,999
Kilcoyne Farms	NY	Working Capital		$261,077
NYAG, LLC	NY	Working Capital		$170,000
CELK Distilling, LLC	NY	Working Capital		$150,000
Keuka Lake Vineyards, LTD	NY	Working Capital		$37,301
Red Jacket Orchards	NY	Working Capital		$49,500
Dagele Brothers Produce; Christopher Dagele	NY	Planning		$79,425
North Country Landscape & Nursery, Inc. DBA Tug Hill Vineyards	NY	Working Capital		$59,950
Food Gems, LTD	NY	Working Capital		$35,004
Hosmer, Inc.	NY	Working Capital		$49,990
Guppy's Berry Farm	NY	Working Capital		$3,650
Martin Sidor Farms, Inc.	NY	Working Capital		$49,990
Spring Lake Winery	NY	Working Capital		$49,500
Maple Shade Farm	NY	Working Capital		$49,750
Growers Cooperative Grape Juice Co., Inc.	NY	Working Capital	Farmer or Rancher Cooperative	$45,000
Egg Tech Ltd.	OH	Working Capital		$300,000
Van Strohm Fiber Processing Mill	OH	Working Capital		$60,500
Auburn Twin Oaks, LLC	OH	Working Capital		$125,000
Commercialization Roadmap for Alternative Aviation Fuel	OH	Planning		$71,551
Mercer Landmark—Louis McIntire	OH	Planning	Farmer or Rancher Cooperative	$39,800
Tea Hills Gourmet Chicken Products	OH	Working Capital		$178,062
Holder Brothers Beef	OK	Working Capital		$300,000
Walnut Creek Farms	OK	Working Capital		$40,850

Applicant Name	State	Grant Type (Planning or Working Capital)	Applicant Type	Grant Amount
Bogdan Caceu	OR	Planning		$12,125
Wrigley Family Ventures	OR	Working Capital		$49,999
Fairview Farm LLC	OR	Working Capital		$49,264
Seely Family Farm	OR	Working Capital		$163,013
Zena Forest, LLC	OR	Working Capital		$130,750
Deadlus Cellars Co.	OR	Working Capital		$49,005
Sokol Blosser, Ltd.	OR	Working Capital		$49,999
Carman Ranch	OR	Planning		$18,050
Scott H. McKenzie, *et al.;* Seaview Cranberries, Inc.	OR	Working Capital		$49,999
Deck Family Farm	OR	Working Capital		$300,000
Coleman Vineyard LLC	OR	Working Capital		$49,824
Cherry Country	OR	Working Capital		$49,999
Goldin Artisan Cheese, LLC	OR	Working Capital		$10,410
Michael Steven Mega	OR	Working Capital		$49,992
Oregon Coastal Flowers	OR	Working Capital		$100,000
Champoeg Creek Farm	OR	Working Capital		$49,990
Morale Orchards, LLC	OR	Planning		$39,909
Stoller Vineyards, Inc.	OR	Working Capital		$49,792
Tad Buford & Karen Finley, Queen Bee Honey Company	OR	Working Capital		$30,824
Southern Oregon Winery Association (SOWA)	OR	Planning Grant		$22,550
Wild Wines, LLC	OR	Working Capital		$93,572
Rainshadow Organics	OR	Working Capital		$49,999
Wayne Hutchings	OR	Working Capital		$24,400
Brenda Carter	PA	Working Capital		$3,000
North Mountain Pastures	PA	Working Capital		$26,860
Wholesome Dairy Veterinary	PA	Working Capital		$49,990
Willow Brook Farms, LLC	PA	Working Capital		$3,730
Glenn R. Cauffman	PA	Working Capital		$80,000
Keystone Beef Marketing Network	PA	Planning		$35,150
Endless Mountains Farm Fresh Cooperative	PA	Planning	Farmer or Rancher Cooperative	$37,450
Christian Klay Winery	PA	Working Capital		$24,888
Fertile Grounds	PA	Working Capital		$300,000
Shade Mountain Winery (SMW)	PA	Working Capital		$49,999
Roberto Atienza DBA Hacienda San Pedro	PR	Working Capital		$300,000
Carlos Gonzalez dba Finca Gonzalez	PR	Working Capital		$150,000
Apiarios Caraballo, Corp.	PR	Working Capital		$100,000
JJJ Ranch, Inc.	PR	Working Capital		$300,000
Bananera Hermanos Marrero, Inc	PR	Working Capital		$250,000
Esmerelda Sandoval; Del Valle Fresh, Inc.	SC	Planning		$100,000
Jimmy Forrest Farm Inc.	SC	Working Capital		$299,852
Hickory Bluff LLC	SC	Working Capital		$42,907
Jackson Winery and Vineyards, LLC	SD	Working Capital		$300,000
Wild Idea Buffalo Company	SD	Planning		$17,500
Sarah Bellos	TN	Planning Capital		$39,600
Cumberland Farmer's Market (CFM)	TN	Working Capital		$43,276
The Fullen Brothers Farm	TN	Planning		$95,000
Johnson Backyard Garden	TX	Working Capital		$49,950
San Angelo Bioenergy Facility	TX	Planning		$95,000
Rangeland Restoration	TX	Working Capital		$300,000
James Clinton Hodges DBA Sterling Lamb	TX	Working Capital		$120,900
Texas Daily Harvest	TX	Working Capital		$200,000
Panhandle Agricultural Producers LLC	TX	Planning		$62,630
Herber Valley Artisan Cheese	UT	Working Capital		$300,000
Scott G. Smith	UT	Working Capital		$22,319
Utah Pork Producers Association	UT	Working Capital		$300,000
Cornaby's LLC	UT	Working Capital		$239,412
Riley's Farm Fresh LLC	UT	Working Capital		$22,328
The Homeplace Vineyard, Inc.	VA	Working Capital		$208,571
Virginia Wineries Association Cooperative	VA	Planning	Farmer or Rancher Cooperative	$100,000
Rosemont of Virginia, LLC	VA	Working Capital		$300,000
Virginia Wineworks	VA	Working Capital		$149,125
Messick's Farm Market	VA	Planning		$60,000
Dairy Energy Inc.	VA	Planning		$100,000
Springview Farm LLC	VA	Working Capital		$37,250
Baker, Inc.	VA	Working Capital		$110,000
AgriBerry, LLC	VA	Working Capital		$300,000
Grayson Natural Foods	VA	Working Capital		$280,735
Virginia Aqua-farmers Network, LLC	VA	Working Capital	Farmer or Rancher Cooperative	$300,000

Applicant Name	State	Grant Type (Planning or Working Capital)	Applicant Type	Grant Amount
Kingdom Creamery	VT	Working Capital		$300,000
Green Mountain Organic Creamery, LLC	VT	Working Capital		$300,000
The Success Factor	VT	Planning		$15,480
Paul Lisai	VT	Working Capital		$47,869
Tamarack Tunis	VT	Working Capital		$49,999
Louisa Conrad	VT	Working Capital		$49,057
Hall Home Place, LLC	VT	Working Capital		$24,389
Boston Post Dairy	VT	Working Capital		$38,201
Margorie and Brett Urie	VT	Working Capital		$32,547
Gateway Milling	WA	Planning		$99,425
Little Farms, LLC	WA	Working Capital		$49,726
BellWood Acres Distilling Project	WA	Working Capital		$150,000
Northwest Agriculture Business Center	WA	Working Capital		$300,000
Tachira, LLC	WA	Working Capital		$300,000
Melissa Moeller	WA	Working Capital		$38,367
Skagit Fresh Natural Beverage Company	WA	Working Capital		$49,900
Knutzen Farms, LP	WA	Planning		$48,000
Sheperd Song Farms LLC	WI	Working Capital		$300,000
Lost Lake Bound, LLC	WI	Working Capital		$34,700
Kelley Country Creamery	WI	Working Capital		$300,000
Richard L. Walders	WI	Working Capital		$49,999
Wisconsin Sheep Dairy Cooperative	WI	Planning	Farmer or Rancher Cooperative	$17,865
Harmony Specialty Dairy Foods, LLC	WI	Working Capital		$300,000
LaClare Farms Specialties, LLC	WI	Working Capital		$300,000
Four Elements Organic Herbals LLC	WI	Working Capital		$283,948
Weber's Farm Store, Inc.	WI	Working Capital		$300,000
JFBHayLLC	WI	Working Capital		$300,000
Tony Koyen Farming Inc.	WI	Working Capital		$300,000
Wisconsin Cranberry Cooperative	WI	Working Capital	Farmer or Rancher Cooperative	$300,000
Jolivette Family Farms Inc.	WI	Working Capital		$300,000
Gingerbread Jersey LLC	WI	Working Capital		$300,000
Community Farmers' Co-Op (AKA CFC)	WI	Working Capital	Farmer or Rancher Cooperative	$200,000
Ellsworth Cooperative Creamery	WI	Working Capital	Farmer or Rancher Cooperative	$300,000
Marieke Penterman, Holland's Family Cheese LLC	WI	Working Capital		$300,000
Lakeshore Forest Products, Inc.	WI	Working Capital		$300,000
George R. Crave; Crave Brothers Farmstead Cheese, LLC	WI	Working Capital		$300,000
Gensing and Herb Co-op	WI	Working Capital		$300,000
Johnson Timber Corporation	WI	Working Capital		$300,000
Westby Cooperative Cooperative	WI	Working Capital	Farmer or Rancher Cooperative	$300,000
African-Style Dried Fish	WI	Working Capital		$300,000
Millet Supply, LLC	WI	Working Capital		$300,000
MacFarlane Pheasants, Inc.	WI	Working Capital		$300,000
Krueger Lumber Company	WI	Working Capital		$300,000
Hsu's Ginseng Enterprises, Inc.	WI	Working Capital		$300,000
Bloomery Plantation Distillery, LLC	WV	Working Capital		$49,000

SUBMITTED LETTER BY WALTER B. MCCORMICK, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED STATES TELECOM ASSOCIATION

April 24, 2012

Hon. TIMOTHY V. JOHNSON,
Chairman,
Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.;

Hon. JIM COSTA,
Ranking Minority Member,
Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Johnson and Ranking Member Costa:

Thank you for the opportunity to provide the views of the United States Telecom Association (USTelecom) in advance of the Subcommittee's upcoming hearing on the telecom and broadband loan programs administered by the Rural Utilities Service (RUS). As the Subcommittee begins to craft the rural development component of the upcoming reauthorization of farm programs, this is a particularly important and timely hearing that allows supporters of RUS loan programs to explain their continuing value to rural America and to dispel certain myths disseminated by detractors of these programs.

USTelecom represents innovative broadband companies ranging from some of the smallest rural telecoms in the nation to some of the largest companies in the U.S. economy. Our members offer a wide range of advanced broadband services, including voice, Internet access, video, and data, on both a fixed and mobile basis. The vast majority of our member companies are rural providers. Many are small businesses serving small communities. They are proud members of these communities and deeply committed to their future development. What unites our diverse membership is our shared determination to deliver broadband services to all Americans—regardless of their location.

USTelecom members appreciate the strong support the Agriculture Committee has provided for RUS telecommunications programs since their inception in 1949. RUS endures because it is a brilliantly conceived public-private partnership in which the borrowers are the conduits for the Federal benefits that flow to rural telecom customers—the true program beneficiaries. The targeted assistance offered by the RUS broadband and telecommunications loan programs remains essential to a healthy and growing rural economy and contributes to the provision of universal communications services comparable to those found in urban areas. In fact, the perfect repayment record of borrowers from the telecommunications loan program means these loans actually make money for the government and contribute to deficit reduction.

RUS Broadband Loan Program

Attention has focused in recent years on the implementation of the RUS Broadband Loan program. The program was created in the 2002 Farm Bill to provide loans specifically for broadband deployment in unserved areas. In May 2007, USTelecom appeared before this Subcommittee and raised concerns with the implementation of the original program, particularly about broadband loans being provided in urban areas and in areas with multiple existing broadband providers.

USTelecom worked closely with this Subcommittee during development of the 2008 Farm Bill, and as a result, Congress improved the targeting of RUS Broadband Loan program funds by narrowing the definition of "rural" so that suburbs and subdivisions near cities no longer qualify for loans, and by prioritizing lending to areas with little or no existing broadband service. This means that top priority is given to loan applicants who offer to provide broadband service to the greatest proportion of households without service.

Since passage of the last farm bill in May 2008, USTelecom, like many others, was distressed by the agency's delay in issuing the regulations required to implement the changes in the program. RUS did not release the interim-final rules implementing Congressional reforms to the program until March 2011. Shortly after the release of those interim-final rules it became clear that disbursements from the FCC's High-Cost Universal Service program were going to be dramatically reformed. As a result, RUS is now in the process of updating its financial models to account for these coming changes, and rural carriers are being asked to withhold applications until these financial models are updated. Others that have already submitted applications, but have not yet had their applications approved, are being asked by RUS to resubmit their applications in light of the current and pending changes in High-Cost Universal Service support. While we are certainly frustrated by these delays, there remains a continuing need for the Broadband Loan program, as we will explain in further detail below.

Unjustified Criticisms

We believe it is important for us to address head-on the distortions being propagated by the program's detractors—many of whom, we would hasten to add, typically have no desire to provide broadband service beyond the denser populations found in rural town centers.

First, some detractors point to a 2009 Department of Agriculture Inspector General (IG) review of the program as justification for its termination. A closer reading of that report, though, shows it is a review of the broadband loan program as it existed *before* the program changes required by Congress in the 2008 Farm Bill. In fact, the IG report acknowledges that Congressional reforms contained in the 2008 Farm Bill would have resulted in $862 million in loans issued by RUS between the

IG's initial 2005 report on the program and the passage of the 2008 Farm Bill being ruled partially or completely ineligible for funding.

Second, some critics have deliberately conflated entirely separate programs to make their assertions. They often point to examples of over-building of existing broadband networks funded from the $2.5 billion Broadband Initiatives Program (BIP), administered by RUS, and created by the 2009 American Recovery and Reinvestment Act. A separate program, BIP was *not* required to follow the program modifications to the Broadband Loan program required by Congress in the 2008 Farm Bill. To be clear about this point, in the period between passage of the 2008 Farm Bill and the release in March 2011 of the program's interim-final rules, no loans were issued under the Broadband Loan program.

Third, certain detractors also suggest Congress failed in 2008 to limit providers from receiving support for building out broadband in areas where it is already available. To address this issue, they propose to prohibit loans to build out broadband or upgrade facilities in areas where it is already available at certain speeds to more than 25 percent of existing residential households. Actually, Congress did address this issue and there is *no evidence* that the Congressional policy changes are insufficient. In fact, such a proposal discriminates against the hardest-to-serve households in rural areas and could prevent consumers and businesses located in areas outside of a town center from ever receiving broadband service.

Finally, some have suggested the RUS Broadband Loan program and the High-Cost Universal Service program are duplicative. In fact, the two programs are complementary—each an important element in deploying cutting edge communications services to rural America. While the RUS Broadband Loan program supports only one-time capital investments to provide broadband in hard-to-serve rural areas, the Universal Service program provides support to ensure that affordable and reasonably comparable communications services are available to consumers and businesses in high-cost rural areas.

Going Forward

As this Subcommittee is well aware, there are areas of our nation that still lack access to broadband service. The recession that began subsequent to the passage of the last farm bill has made it increasingly difficult for small companies to obtain infrastructure improvement loans through the private sector.

In addition, it would be premature to further amend the Broadband Loan program at this time. RUS only issued the interim-final regulations in March 2011 to account for the program changes required by Congress in the 2008 Farm Bill, before the program was suspended again due to pending changes in the FCC's High-Cost Universal Service regulations. A reasonable period of time is required to reconcile the changes brought about by both these developments.

The investment in the most modern and sophisticated equipment available at the premises of businesses, schools, or clinics is wasted if the local communications provider cannot afford to build the facilities that quickly transport the large amounts of voice, video, and data these entities generate. Further, the government's contribution through these loan programs is leveraged by the equity, technical expertise, and dedication of local telecom companies, as well as the additional tax revenues generated by the jobs and economic development resulting from the provision and upgrading of broadband infrastructure via loans.

Again, thank you for the opportunity to provide our views on these important programs. RUS telecom and broadband program participants take seriously their obligations to their government, their nation, and their subscribers. They will continue to invest in our rural communities, use government loan funds carefully and judiciously, and do their best to assure the continued affordability of advanced communications services in rural America.

Sincerely,

Walter B. McCormick, Jr.

WALTER B. MCCORMICK, JR.

SUBMITTED QUESTIONS

Response from Hon. Donald Larson, Commissioner, Brookings County, South Dakota; Chairman, National Association of Counties, Agriculture and Rural Affairs Steering Committee *

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. You have requested that we give priority to applications which are submitted through a regional plan. Why should Congress authorize a regional plan to move ahead of an application from an individual community which is just as much in need, but for a variety of reasons may not be able to participate in a regional collaboration?

Question 2. In your testimony you highlighted the local and regional food programs. You also suggested that programs across the farm bill should be on equal footing. In your view, why should there be a specific program to devote funds to a narrow purpose, as opposed to ensuring it is a qualified activity under the general business grant and loan programs?

Question 3. Many programs were designed in the past when funding was more available and the resources could be narrowly devoted to certain activities. In this current budget environment, which programs would you suggest should be cut or eliminated so the programs which provide the true core economic development assistance can be focused on?

Question 4. Your testimony discusses a great need for access to healthy foods. But in the U.S. supply chains are among the strongest in the world and food is the most available and affordable in the world. Exactly what market failure are you suggesting needs to be addressed with local and regional food chains as it relates to healthy food access?

Question 5. You mentioned technical assistance and its importance to ensuring the viability of projects over the life of the loan. Do you believe every program needs to devote scarce resources to technical assistance? What non-Federal resources could fill this need?

Question 6. You called for expanded authority in the Community Facilities program to allow grants for technical assistance. How would those funds be used, and why should it come out of funds that would otherwise be available to fund additional critical community facilities such as first-responder equipment? Which eligible activity would you suggest be removed from the program to offset this new eligible purpose?

Question 7. You call for a more locally-driven process at USDA. Is USDA adequately staffed for such a shift? How would the programs be overseen?

Question 8. You mentioned that you want local governments included as eligible entities in the relending programs. How would conflicts of interest be managed when governments are both the lender and regulator? Are the same structures in place in every entity which would be made eligible under this proposal? How would internal controls be verified by USDA to prevent abuse?

Question 9. Your testimony listed a number of organizations you feel should be eligible regional partners. Could you please clarify which partners MUST be included, and which SHOULD be included if they exist in the region?

Question 10. Your third suggestion for regional cooperation mentions an additional priority for communities which demonstrate cost savings and reduced duplication. How would you envision these savings be demonstrated for USDA to evaluate?

Question 11. What prevents USDA from working with their state partners each funding year to approve projects which fill in the gaps of regional plans?

Question 12. How do you guarantee the strong urban and suburban voices in regional discussions do not drown out the needs of rural communities when regional plans are formed?

Question 13. You mentioned that technical assistance providers' capacity needs to be strengthened; however, one of the qualifications should already be that those providers have the capacity to justify receiving Federal funds in the first place. Are you suggesting that USDA should train people so that they then are eligible to receive Federal funds?

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* There was no response from the witness by the time this hearing went to press.

Response from Leanne Mazer, Executive Director, Tri-County Council for Western Maryland; on Behalf of National Association of Development Organizations

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. Regional plans are put in place for up to 5 years, yet sometimes adjustments must be made. What recourse do small communities have to adjust their priorities in a regional plan when leadership changes or other factors justify such a revision?

Answer. As resources at the state and local level continue to diminish, local communities across rural America like ours are joining together to create comprehensive regional plans that examine their region's existing assets and needs across multiple sectors including comprehensive economic development, workforce, transportation, healthcare, and pre-disaster mitigation.

These strategies are essential because they help rural regions to prioritize their needs, ensure that locals coordinate and are vested in the process and projects, and help leverage every possible asset and dollar to improve economic conditions in their communities. These regional strategies also encourage multiple rural communities to think more strategically and creatively about how they use Federal, state, and local dollars. **Partnering regionally helps us to avoid duplication of effort and we are able to better share our resources and determine which projects will increase our communities' economic viability.**

This type of coordination does not happen overnight and can be a complex and arduous process to achieve agreement across multiple jurisdictions. But during a time of increase scrutiny on Federal investments, this type of vetting and coordinating process by local public, private and nonprofit sector leaders should be encouraged by USDA and across the Federal Government.

Although some of the existing planning frameworks like the U.S. Economic Development Administration's Comprehensive Economic Development Strategies (CEDS) are 5 year plans, they can be updated annually based on changing needs and conditions. These strategies are not meant to be restrictive or static plans, but are intended to be living documents that help guide communities as they strive for growth. Just as the U.S. military prepares strategic plans and U.S. private companies create business plans, the regional economic development plans can serve as a roadmap for communities like ours to achieve shared goals. Routine plan updates can ensure that communities' priorities are addressed and allow for course corrections as strategic plans are implemented.

If a community determines to shift their priorities in a regional plan, or if a community is not covered by a regional planning framework, they should still be able to submit proposed projects for consideration by USDA.

Under current law, there is no incentive for rural communities to coordinate on USDA rural development projects. USDA should encourage communities to work together to best use Federal dollars.

Question 2. If communities decide they would rather op-out of the regional plan where they would otherwise be included, how would their application be treated under what NADO has considered for regional priorities if they decide to change their local priorities?

Answer. If a community decides to op-out of the regional plan, or is not covered by a regional plan, they should be allowed to submit their application for USDA consideration under the normal system. USDA already makes decisions on where and how to invest public dollars. Whether a community is part of a regional plan or not, they will still have to compete against other projects. Communities that opt-out of a regional plan or strategy should not be penalized, but at a time where Federal dollars are increasingly scarce, USDA should encourage communities to work together to determine how they can leverage existing assets with Federal dollars.

E-Mail Submitted by Fitzhugh Elder, National Rural Water Association

May 17, 2012

MIKE DUNLAP,
Staff Director,
Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture,
House Committee on Agriculture.

Mike,

I hope all is well. Frank's responses to the QFR's are attached. Please let me know if you need anything else.

As you draft the farm bill, in addition to the circuit rider language we have discussed, I would like to also request that you keep 7 U.S.C. § 1926(b) as it is currently written. The purpose of 7 U.S.C. § 1926(b) is to protect the integrity of the Federal Government's outstanding loans by preventing any portion of a water system to be forcibly annexed or cherry picked by another system or municipality. Such annexation would result in the remaining customers being solely responsible for repayment of the loan, with fewer customers to share the burden—resulting in a higher cost per customer and greater risk of default. This dilemma is of special concern because USDA loans are only made available to low and moderate-income rural communities based on household per capita income that cannot obtain commercial credit. It is also important to remember that USDA provides both loan and grant to systems based on their financial situation and proposed rate structure at the time the application is processed. Any loss of projected revenue caused by loss of territory jeopardizes this carefully constructed financial arrangement. The 7 U.S.C. § 1926(b) provision is an essential stabilizing element and is one of the reasons that the program works so well.

Please let me know if you have any questions or concerns. Thank you.

FITZHUGH ELDER,
National Rural Water Association.

Attached Response from Frank Dunmire, Executive Director, Illinois Rural Water Association; on Behalf of the National Rural Water Association

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. Mr. Dunmire and Mr. Stewart, you both talked about the repayment rates of water loans, using the lifetime default rate of 1.02% and a delinquency rate of 0.18% respectively. Just so we are comparing the same numbers, could you both clarify whether you mean to refer to the same rates, or if there is a reason you have described two different aspects of the programs?

Answer. I believe Mr. Stewart and I were using two different measurements of the water and waste loan programs to make a similar point. The default rate is a measure of the nominal lifetime defaults as a percentage of disbursements, while the delinquency rate is a measure of the number of late payments as a percentage of the number of loans. I believe that both numbers are demonstrative of a very well-managed loan program. This is particularly true when considering that USDA is a lender of last resort.

Question 2. If the current program limits require USDA focus on towns of less than 10,000, and in reality the program focuses on towns of less than 5,000; would there be any value in opening up the eligibility definitions to larger cities?

Answer. No. In fact, I feel that it would have an adverse effect on the smaller systems. The current trend that shows funding "focusing" on towns of less than 5,000 should be considered as an example of how well the current limits are working. As a general rule of thumb larger municipalities have larger project needs and consequently require larger amounts of funding. To include larger municipalities in this program, in my opinion, would only serve to dilute the RD funding pool.

Question 3. What are some of the current regulatory issues faced by small towns as they work to provide clean water?

Answer. Below are a few examples of the regulatory requirements small towns struggle with. Please note that this is not a comprehensive list.

a. Reporting: For example, Consumer Confidence Reports—each year suppliers are to supply their customers with a consumer confidence report (CCR) that contains information about their drinking water. Currently there are several ways to meet this regulation (*i.e.,* direct mail, publish in newspaper, or in the case of really small systems less than 500—notify them of its availability). What is not an acceptable means is posting on a website. There is discussions within USEPA and legislation introduced (H.R. 1340 & S. 1578) to repeal the mailing requirement of the CCR rule.

b. Costly standards without flexible implementation for small communities: For example, Arsenic—This is one of the many "contaminants" that Ranking Member Costa referred to in his opening remarks. Here is a naturally occurring element that can be found in water supplies throughout the country. When USEPA lowered the allowable concentrations to 10 parts per billion it put many systems into a state of non-compliance and they were forced to put in treatment. The treatment that most opted for—reverse osmosis—was not only expensive to install but is expensive to run as well.

c. Complexity of Federal Regulations: For example, the Lead and Copper rule—although the water system delivers lead/copper free water to the end-user they are still being asked (or forced) to take responsibility for what happens to the water once it leaves the systems pipes.

Question 4. Can you offer any insight into the application process, and how USDA might be able to coordinate with the EPA to streamline applications and timing of engineering requirements in the process?

Answer. The answer is quite simple—communication. In Illinois the predominant funding entities (Rural Development, IEPA, Department of Commerce and Economic Opportunity, and the Illinois Finance Authority) will meet on a quarterly basis. Also attending these meetings are Illinois Rural Water Association and RCAP. The sole purpose of these meetings is to coordinate project funding among the different agencies and identify those systems that might benefit from technical assistance visits.

Question 5. With the limited funds available, how would water applications fit into the regional concept discussed at the hearing, particularly in light of the over $3 billion backlog?

Answer. Obviously regionalization is a very good tool in lowering overall costs of supplying water to an area or treating wastewater generated in a region. However, getting municipalities or systems with their own separate identities to "buy into" a regionalized concept is very difficult. Illinois has met with some success in what we prefer to call consolidation. In recent years several water treatment plants have been constructed to serve a number of municipalities. In other words they are wholesalers of water and the individual municipalities, co-ops, *etc.* retain control over their distribution systems.

We support consolidation and regionalization. It has been one of our core missions in expanding public drinking water systems to rural communities. This has been a great benefit to rural households and small communities. However the key principle in any successful consolidation, is local support for the consolidation—and local control on when and how they choose to consolidation. Rural Water has led or assisted in more communities consolidating their water supplies than any program, policy or organization. Again, when communities believe consolidation will benefit them, they eagerly agree. However, if communities are coerced to consolidate, one can almost guarantee future controversy.

Question Submitted By Hon. Vicky Hartzler, a Representative in Congress from Missouri

Question 1. With respect to the grant and loan applications for water and wastewater systems, what are the primary needs for communities which apply?

Answer. I can only speak to what I see here in Illinois but the three top needs in Illinois are:

a. There are still large areas of rural Illinois that experience either an inadequate supply of water or water of questionable quality. Residents in these areas are forced to conserve as much water as possible so the amount they have to haul from town is kept to a minimum. A picture is worth a thousand words and I would like to include this I downloaded from the Internet that as a true example of how some rural Americans get their drinking water—load it in a tank in the back of a pickup truck and haul it home. You will find these municipal fill stations, as they are called, are the busiest just before holidays and any major forecasted storm. No one wants to run out of water at those times.

b. As more regulations are passed by regulatory agencies, systems that were once in compliance find they are no longer so and are forced to determine the most cost effective way of satisfying the new regulations. Some examples of this can be found above.

c. Replacing outdated system components. This can be anything from a new water or wastewater treatment facility to any of the many subcategories. Again, in Illinois, I have seen many systems request funding that will replace water towers, water mains in problem areas, treatment facility equipment, lift stations, pump stations and the list goes on. Right now there seems to be quite a need for new water towers as the ones built back in the 1930's begin to fail.

Question 2. What percentage of applications are addressing outdated systems that are beyond their useful life?

Answer. According to USDA approximately 25% of applications currently in the backlog are for renovation and replacement of water systems.

Question 3. To what extent do new EPA regulations force communities to upgrade their systems?

Answer. It has been my experience, that shortly after (and at times even before) a new regulation is put in place communities will make substantial requests for funding. Over the next few years that funding "need" is somewhat satisfied and then a whole new set of regulations come along—resetting the cycle.

Question 4. Are new environmental challenges a factor?

Answer. New environmental challenges are a factor. For example, current implementation of EPA nutrient reduction initiatives under the Clean Water Act are requiring many communities to install costly new treatment technologies.

Question 5. To what degree is need driven by growth of the communities?

Answer. Certainly there are some projects that are being driven by growth but for, the most part, they are the last to be funded through RD.

Response from Robert B. Stewart, Executive Director, Rural Community Assistance Partnership

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. Your testimony seems to indicate that a small town very much in need of a water system would not be disadvantaged if a priority is given to a regional application. Could you please clarify how a priority can be given to a project, but that in doing so another project would *not* be disadvantaged?

Answer. The priority point system used by Rural Development ensures that varying considerations are given weight when considering the merit of a project application. Funding decisions are decided by a combination of factors, any one of which can only influence the funding decision to a small extent. RCAP proposes that the agency give a small number of priority points for projects that can demonstrate that they have analyzed options for regionalization. Regionalization is not feasible for all water systems, so a system that awards points for projects that can demonstrate that they have weighed the costs and benefits of regionalization—even if they ultimately decide that a regional project is not feasible—will encourage small towns to consider all available options, including regionalization. The extent to which this would impact other applicants is limited because it is only one of many factors considered by the agency. Systems facing public health risks or in need of emergency repairs would still be getting priority points under the existing criteria and would therefore continue to offer competitive applications. Those that would score high under the existing criteria and consider regionalization as a solution, however, would be given higher priority than those that would score high under the existing criteria and do not consider regionalization as a potential solution.

Question 2. USDA Rural Development has a strong track record regarding its effectiveness at providing rural areas with electricity, water, sewer, and community facilities. Would the Federal Government be equally as effective providing economic planning and development as *versus* infrastructure?

Answer. RCAP does not view infrastructure and economic development as mutually exclusive. In order to support small businesses and industry, towns need to meet their basic infrastructure needs. Those infrastructure components form the foundation on which local economies are built, and are an integral part of rural economic development. As mentioned, Rural Development's programs have a strong track record in those fields, which has helped to foster economic growth by providing the foundational infrastructure necessary to support industry and entrepreneurs. USDA Rural Development currently operates a variety of economic development programs such the Business and Industry Guaranteed Loan (B&I) Program; the Intermediary Relending Program (IRP); the Rural Business Enterprise Grant (RBEG) Program; and the Rural Economic Development Loan and Grant (REDLG) to name just a few. These programs allow local, rural communities, nonprofit and for-profit organizations to obtain financial assistance (mainly loans along with very modest grant programs) to support development activities created by and for these local communities. RD business programs are not directive in regards to the initiatives selected by the local communities and businesses and have operated successfully for many years.

Question 3. Your testimony suggested that a town of 10,000 or more could seek funding in the bond market. What rates would a town of that size expect to find in the bond market?

Answer. The likely bond rate for any municipality depends on a variety of factors: population, property values, industrial customer base, indebtedness of the town, and credit history, among others. As such, the rates faced by towns from 10,000 to 50,000 in population would vary depending on the characteristics and history of the communities involved. Typically for these size communities that already have some infrastructure developed and are looking to make improvements or expansions to their services, the rates would be 4½% or less in the open market for communities without a current bond rating. Smaller communities and those without any current water and wastewater infrastructure have no real options other than financing through RD or SRFs. Also of note is the increased willingness of many local banks to finance infrastructure projects for these mid-sized communities at terms of up to 15 years with comparatively low rates and much reduced processes costs.

Question 4. You mentioned the economic activity generated by each dollar of Federal investment. Could you elaborate on how that is calculated, and how the tax base is expanded after these investments?

Answer. The figures cited in my testimony—that every water and wastewater construction dollar generates nearly $15 of private investment and adds $14 to the local property tax base—come in part from a study by Fagir S. Bagi, an economist from the Economic Research Service at USDA that was published in the Winter 2002 issue of "Rural America" (Vol. 17, Issue 4). Recent studies have reached similar conclusions, including a report by the Cadmus Group for the U.S. Conference of Mayors in 2008 that estimates that every $1 we invest in water/sewer infrastructure increases GDP by $6.35 in the long term and that every water utility construction dollar generates nearly $15 of private investment and adds $14 to the local property tax base. I am happy to provide copies of these reports at your request.

Question 5. You suggested that the Community Facilities program should be opened up to planning grants. When budgets are already being strained and the funds available to the program for critical community investments are even more limited, how does it make sense to instead use the money for planning and writing grants?

Answer. In my testimony, I suggested that the Community Facilities (CF) program be opened to Technical Assistance grants, not planning grants. Technical assistance (TA) involves helping both with the nuts and bolts of facility construction and operation, and also in developing local leadership capacity to handle the financial and managerial side of project development. Allowing TA for the CF program would enable nonprofit TA providers to work directly with communities receiving RD loans and grants to get their finances in order and ensure that the taxpayers' investment is repaid. Part of the technical assistance provided may include planning, but the funding would be available for a much broader slate of assistance, rather than simply planning.

It makes sense to use a small portion of the limited funds for TA because it expands the pool of available resources for communities and ensures that taxpayer dollars that are loaned to communities are repaid. Over the nearly 40 years that RCAP has provided TA in the water/wastewater field, we have leveraged small amounts of Federal dollars into millions of dollars of investment directly into rural communities. Over the past 4 years (FY08–FY11), RCAP has helped Rural Development water/wastewater project communities obtain over $360 million in project financing, a return of more than $15 for every dollar we receive from the agency. By replicating the success of the water/wastewater program, a CF TA program can stretch Federal dollars by attracting resources and investment directly to CF projects and developing the financial and managerial capacity of local officials to ensure that both Federal and non-Federal loans are repaid in full.

Question 6. You talk about expanding technical assistance in several parts of your testimony. Can you offer any empirical evidence to substantiate your claim that diverting funds away from programs and into technical assistance makes scare resources go even farther?

Answer. As mentioned in the answer to the previous question, over the past 4 years, RCAP has leveraged over $15 of investment directly in community projects for every dollar of funding we receive from Rural Development. We acknowledge that it is easier to attract investment to water infrastructure, because there are ratepayers, and thus a guaranteed revenue stream, but even if TA providers are able to help CF project communities attract only ½ as much financing for every Federal dollar ($7.50:1), the increased resources will help stretch scarce Federal funds while providing critical community facilities that support economic development and job creation in rural areas. TA providers are able to foster relationships among small communities, private lenders, state and local governments, and Federal agencies to maximize the resources available to communities and attract non-Federal capital to these projects that help expand the reach of Federal programs.

Question 7. Could you describe in greater detail the comprehensive Federal approach to Technical Assistance you mention in your testimony? What is the difference between what you are suggesting and simply ensuring USDA is doing their job?

Answer. By comprehensive technical assistance, I mean using the success of the water/wastewater TA program as a model for TA programs for the rural development programs that don't currently have one, such as for Essential Community Facilities or the Broadband Initiatives Program. For rural communities across America, simply making financing programs available, whether its loans, loan guarantees or grants, is not sufficient to implement meaningful development programs that improve the quality of life and economic opportunities for rural Americans. Nonprofit technical assistance organizations such as RCAP have the on-the-ground experience and expertise to guide rural communities towards those development programs that most closely respond to their unique needs while ensuring that all Federal funding is used in areas of greatest need and to affect the greatest economic benefit for those communities.

Question 8. You mentioned that you have used pre-development loans to assist communities. Of the over $3 billion in projects stuck in the backlog at USDA, how many of those pending applications were put together with pre-development loans?

Answer. Absent a detailed review of each state's applications it would be difficult to accurately characterize the number of pending applications that used pre-development loans. Notably RD applications require a significant amount of work to be accomplished prior to a commitment of funds by RD. The communities and their engineers are therefore burdened with finding the funds for requirements such as the preliminary engineering report, environmental assessment or site acquisition. While some engineering firms can carry these costs (sometimes for a year or longer) until the project is funded, many or most cannot. For the smaller communities and for those that are planning for first-time water or wastewater systems, this places a major financial burden on the systems and can result in delays for critical projects or an outright inability to proceed with the application. For instance, in Texas the majority of current applications were made possible by accessing pre-development loans while in Mississippi the incidence of these loans is much smaller. The Revolving Loan Fund authorized by the farm bill assists with meeting this need, but only for a small percentage of applicants. Similar to the response earlier on the question regarding bond financing, communities without existing systems are unable to obtain pre-development loans from traditional financial institutions and few of these communities have the assets to pay for these costs up-front.

Question 9. Mr. Dunmire and Mr. Stewart, you both talked about the repayment rates of water loans, using the lifetime default rate of 1.02% and a delinquency rate of 0.18% respectively. Just so we are comparing the same numbers, could you both clarify whether you mean to refer to the same rates, or if there is a reason you have described two different aspects of the programs?

Answer. The delinquency rate I referenced is the figure reported by USDA–RD Water and Environmental Programs at the release of their annual activity report for fiscal year 2011. In the Annual Activity Report itself, the agency writes that it "[m]aintained a less than one percent delinquency rate on the portfolio of more than 18,000 loans." In other words, of WEP's current portfolio, the agency reported that only 0.18% of borrowers are delinquent. The lifetime default rate, as cited by Mr. Dunmire, is a different statistic, though both show that the program has been enormously successful and provide an example of the efficacy of technical assistance programs.

Response from David G. Rozzelle, Executive Vice President, Suddenlink Communications; Member, National Cable Telecommunications Association, Rural and Small System Operator Committee

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. Could you describe how many of your members have accepted the responsibility of being the carrier of last resort to ensure every American has access to phone service which is now shifting into access to broadband service? How many of your members participate in the RUS broadband loan program?

Answer. State-imposed carrier of last resort obligations originated decades ago to ensure that telephone companies in rural areas would continue to offer basic voice connections to residents in those areas. Carrier of last resort generally is not an option that companies are free to accept or reject. Rather, it is a set of rights and obligations imposed by states. Most states imposed these obligations on telephone companies because they were monopoly providers and therefore were expected to serve all customers, in some cases with the aid of Federal subsidies. Conversely, most states have not imposed these obligations on new entrants, including cable companies. In addition, because cable operators generally do not receive Federal or state subsidies, there may be some extremely high cost areas that telephone companies alone are able to serve as a result of government subsidies.

Cable broadband connections also enable consumers to access online voice-over-IP (VoIP) providers like Vonage—so consumers in areas served by cable also have voice connectivity in this way. It is worth noting that while many large and small cable operators have extended voice and broadband service to many rural areas without the help of government subsidies, the new FCC rules do not allow *any* opportunity for competitive providers to obtain USF support in areas served by rural telcos.

To my knowledge, only one of NCTA's members participates in the RUS farm bill broadband loan program.

Question 2. In your testimony you suggested that USDA should establish a speed threshold similar to that of the FCC. Do all your members meet the 4 mega-bits per second threshold you mention in your testimony at all times, even during times of peak usage, for all of your customers?

Answer. On a customer specific basis, no provider, regardless of technology, can meet a specified speed threshold at "all times"—the shared nature of mass market broadband services, and the Internet itself does not allow such precision. In a recent report, however, the FCC found that, on average, cable operators delivered 93 percent of advertised download speeds and 108 percent of advertised upload speeds during peak hours. Suddenlink monitors the performance of its network closely to make certain we provide our customers with the experience we have promised them.

While I can't vouch for each and every NCTA member, my understanding is that NCTA's members as a group endorse the definition of broadband contained in the FCC's National Broadband Plan, which is 4 Mbps downstream.

Question 3. Is there a need for rural broadband investments? How are your members reaching the last, unserved portion of rural households?

Answer. Suddenlink and NCTA strongly support the availability of broadband funding for unserved rural areas. Quality broadband services should be available to all regions of the country, including the least densely populated areas of the country. Broadband is a crucial driver of economic recovery and global competitiveness.

Broadband links rural America to the rest of the country and the world, creates jobs, improves educational opportunities, and delivers health care more efficiently. Rural broadband funding programs should focus on bringing broadband to those rural consumers in areas where it is uneconomic to serve.

Cable operators and other providers are investing millions of dollars to bring the most advanced services to rural customers, and to reach those unserved areas if they can with private investment dollars. As I said in my direct testimony, in the past 3 years, Suddenlink has invested $350 million above our normal capital spending levels to improve our network and our services. As a result, we provide speeds up to 107 Mbps to many of our customers, including customers in Ripley, WV (2010 population 3,252) and Pomeroy, OH (2010 population 1,852). Another cable operator, Sjoberg's Inc., has connected the schools in the Thief River Falls, MN area (pop. 8400) with fiber links operated at 100 Mbps, as well as a 1 gb fiber-based network for the City of Warroad, MN (pop. 1300) that ties together the City Hall, Fire Department, Police Department and the Utility Department. Sjoberg's, in fact, is building out to many low density areas within its footprint (less than five homes per mile of plant) with fiber-to-the-home technology and is providing 5, 8 and 11 Mbps speeds.

As noted above, we acknowledge that there are areas which remain unserved, and where Federal and state subsidies may be needed to help provide broadband service.

Question 4. Were the three studies referenced in your testimony conducted by an independent group, or were they commissioned? How much of the reluctance for investment in broadband inferred by those studies is actually due to the uncertainties surrounding the FCC reform orders?

Answer. As noted in my testimony, the studies were commissioned by NCTA but were conducted independently by Navigant Economics. The case studies demonstrate that millions of dollars in grants and loans have been directed to areas where a significant majority of households already have broadband coverage. According to the Navigant report, this has resulted in an exceedingly high cost of $30,104 per each incremental home passed in the studies

The reluctance to serve remote areas is a function of economics, not regulatory policy. Unserved areas nearly always have a sparse population that is insufficient to support the costs of building and operating broadband facilities. Targeted and efficient government support is the most appropriate means of extending broadband to those areas. For example, the FCC is currently working on the Connect America Fund which targets USF support to help bring broadband to unserved households. USF reform and extending broadband service to unserved areas are fully compatible goals.

Question 5. Your testimony focuses on the issue of 'overbuilding.' Yet you do not distinguish whether the alleged existing service is directly comparable across examples, to the competing project, or even sufficient to meet the needs of the community. Could you please list for us each of the projects you feel were simply installing the exact type and speed of service on top of the same speed and area of service? What percentage would these be of all the broadband projects funded through RUS?

Answer. By "overbuilding," we mean government funding of an area where a wireline or terrestrial wireless provider already offers broadband service that meets or exceeds the FCC's definition. Scarce taxpayer dollars should be put to work to extend broadband to areas that lack broadband service at those speeds, rather than subsidizing the construction or upgrade of an additional provider in an area that is already served.

Additionally, because of the lack of transparency in the RUS Broadband Loan Program, we have a hard time determining the exact details of any of the overbuild projects and, thus, cannot determine what percentage of the RUS broadband projects primarily serve areas already served. It should be noted, however, that the 2009 report by the Department of Agriculture Inspector General found that 34 of 37 applications granted (95%) were for "areas where one or more private broadband providers already offered service."

Question 6. This Committee also expressed reservations with the way that the ARRA was implemented, though we hoped that rural America would benefit in spite of the rushed process. In your testimony, do you mean to compare the BIP projects funded under the ARRA directly to the loan program authorized in the farm bill?

Answer. While BIP funding is separate from the loan program authorized under the farm bill, they are both implemented by RUS. RUS's stewardship of BIP, like its implementation of the farm bill program, demonstrated a failure to target funding to unserved areas despite explicit direction to do so. Under both programs, many millions of dollars in grants and loans have been made in areas where a significant majority of households already have broadband coverage from one or more broadband providers. This ongoing failure across multiple programs is why we believe that RUS must be given clear and unambiguous direction to ensure that broadband loan dollars are appropriately directed to areas that lack broadband service.

Question 7. You suggested that RUS borrowers post quarterly reports online. What information are you seeking through this concept?

Answer. We believe that it is important to hold recipients of government support accountable for meeting the goals for which support was provided. There should be transparency after the RUS awards money to an applicant. Quarterly progress reports should detail the use of the funds (*e.g.,* is the money actually being used to extend plant to unserved areas, or is it being directed at areas that already have a broadband provider; is the money being spent in the manner that was approved in the application?); status of the project; next steps; and timeframe of completion. If an entity accepts public funding, it should reasonably expect to have to provide full information about how those funds are being spent, even if such data would be considered proprietary by a privately-funded provider. Moreover, if support is targeted to unserved areas—as it should be—there should be few, if any, competitive concerns with respect to such disclosure.

Response from Mark Bahnson, Chief Executive Officer and General Manager, Bloomingdale Communications; on Behalf of National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance

Questions Submitted By Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. You highlighted the fact that not all providers have the same focus, and in fact some cherry-pick the concentrated, easier to serve, and more lucrative areas. Does this approach fit into the model of ensuring broadband service is provided universally?

Answer. No. Some opponents of the RUS telecommunication programs and USF point to their ability to provide broadband service without RUS loans or USF cost recovery. However, it's important to note that these providers often fail to provide service to the most high-cost "last mile" households and businesses, focusing instead on the concentrated areas of a community or service area. This method of service fails to provide broadband "universally." On the other hand, rural telecom providers often have carrier-of-last-resort obligations that require them to serve all customers in their service territory—not just the more densely populated, profitable towns and cities.

Without carriers-of-last-resort reaching outside the towns with the help of this public-private partnership, there would be even more unserved consumers in rural America—and the challenge of achieving universal broadband would be greater than it already is. And if this public-private partnership is undermined, then small rural telcos may have no choice but to likewise abandon the "countryside" and retreat to serving just within the "in-town" boundaries too.

Question 2. There are several programs operated by USDA which can be used to deploy broadband and build community facilities to provide public access to the Internet. These include the Community Facilities Program and the Distance Learning and Telemedicine Program. Do you think that there is an opportunity in these programs to consolidate the authorities so that rural towns do not have to spend a great deal of time trying to sort through a maze of different programs? Are there other programs which could also be consolidated to reduce the confusion on where to apply?

Answer. The presence of multiple USDA telecommunication programs—each offering unique features—ensures flexibility that might not otherwise be available under a more "one-size-fits-all" approach. For example, a remote, high-cost community with no broadband service might be best served with a Community Connect Program grant that makes available a community center with computer access points. However, another community without direct access to medical care may better benefit from Distance Learning and Telemedicine Program development funds to enhance their emergency service capabilities through telecommunications technology. For example, rural educational opportunities in Bloomingdale's service territory have been greatly expanded because of a RUS Distance Learning grant, a RUS loan that supported high-speed Internet deployment to the school, and the USF E-Rate program, which helps schools ensure students have access to the Internet.

Question 3. Some of the testimony others presented seems to indicate that insufficient changes were made in the 2008 Farm Bill, although those assertions rely on older OIG reports from the previous, 2002 Farm Bill. Given that the farm bill loan program has been stalled, do you believe there is sufficient information to make such a claim?

Answer. No. Interim rules, which were required by programmatic changes to the Broadband Loan Program in the 2008 Farm Bill to better target resources, were not put in place until March 2011 (during which time no new loans were approved). Since that time, the FCC's adoption and ongoing consideration of changes to USF have created regulatory uncertainty, dramatically reducing both the number of new Broadband Loan Program applications and RUS's ability to finalize rules and evaluate and approve new loans. As a result, the Broadband Loan Program has been at almost a complete standstill since 2008. With virtually no new loan projects available to assess the results of the 2008 Farm Bill's reforms, now is not the time to place new restrictions on the Broadband Loan Program. Though some providers that don't typically serve rural areas want to dramatically restrict the program, it was inoperable for 3 years after the 2008 Farm Bill and has been frozen by regulatory uncertainty for the past year. Restoring regulatory certainty will enable this program to return to the successful track record it had as a public-private partnership.

Question 4. Just to clarify one of the points in your testimony, is it your view that putting a 75% threshold for unserved households would completely eliminate RUS' ability to deploy broadband in our small, rural communities?

Answer. Minimizing subsidized "overbuilds" in areas where broadband already exists should remain a top goal for RUS. However, the proposal to prevent RUS from loaning in any area where more than 25% of households already have access to broadband would likely dramatically reduce demand for the program and eliminate significant portions of the country from eligibility. Under such a scenario, a provider wishing to receive a loan to serve a rural area where 74 out of 100 people do not have access to broadband would not qualify for a loan. It should also be noted that in rural areas, such a population could be spread over miles and miles. Put another way, such a system could leave three rural residents "unserved" in near-perpetuity simply because one resident located miles away happens to be fortunate enough to receive some level of broadband.

Eliminating the Broadband Loan Program, which provides loans that must be paid back to the Federal Government with interest, as an option to help provide service in such a situation is not the answer for households and businesses that remain unserved year after year and have no prospect for broadband service in sight. The concerns expressed around this issue have been loudly heard, and the Secretary of Agriculture's discretion is an appropriate barometer for such decision making.

Question 5. Some of the testimony presented suggested that USDA adopt the FCC targets of 4 Mbps down and 1 Mbps up for broadband service speed. In your view, how would such a universal requirement affect USDA's ability to deploy broadband in rural America?

Answer. According to the FCC's National Broadband Plan, 14 million people in seven million housing units do not have access to terrestrial broadband capable of download speeds of 4 Mbps, and that such housing units are more common in rural areas. Using the National Broadband Map's Broadband Statistics Report, it has been pointed out that 98% of rural Americans (100% urban) have access to "broadband" download speeds greater than 786 kbps, and some claim the loan programs are therefore no longer needed. However, the same report shows that only 79.2% of rural Americans (99% urban) have access to speeds greater than 6 Mbps and only 70.8% rural (97.6% urban) have access to speeds greater than 10 Mbps, which are minimum download speeds more commonly considered necessary for rural areas to compete in the modern broadband world. Indeed, the FCC established a benchmark of 6 Mbps downstream and 1.5 Mbps upstream for broadband deployments in later years of CAF Phase II in the Final Order for USF reform released Nov. 18, 2011.

RUS telecommunication programs provide up-front capital to build out to new customers and to upgrade networks. USF, by design, provides for cost recovery for the ongoing operation of the network and maintenance, and is at bottom intended to make sure that the prices consumers pay for service in rural areas are affordable—that is, "reasonably comparable" to those in urban areas. RUS programs are also aimed at the efficient practice of "building it right the first time." Rather than dispatching construction crews multiple times over many years at higher costs to handle repeated upgrades, the RUS programs encourage an approach to minimize the need for repeat construction efforts. Instead, these programs aim at ensuring that each network deployed (which is collateral for the loans provided) will retain the maximum value over its useable life.

USDA will play a crucial role in delivering faster broadband to more rural Americans, but the job will not be completed unless USF is targeted to provide the cost recovery essential to maintaining service. As of now, it does not appear that USF reform will result in the kind of support to small, rural providers that will be essential to delivering faster speeds. The FCC has decided to direct incremental support for broadband to the larger carriers that traditionally have not delivered broadband to their rural service areas. If the agency proceeds on this course and the gamble does not work, USDA lending alone will be insufficient for addressing the resultant gaps in service.

Question 6. You mentioned the maintenance and upgrading of systems. To what extent do investments in upgrades allow you to expand your coverage and service to unserved areas?

Answer. If broadband is worth deploying to high cost rural areas then it is worth investing in upgrades to ensure that recipients are able to fully utilize the Internet and participate in modern global economy. Smart broadband deployments can help keep the cost of upgrades down.

In order to provide broadband at a reasonable cost, the networks deployed today must be easily scalable to meet the broadband needs of tomorrow without significant additional investment. Much of the infrastructure of a wireline broadband network is in buried or aerial cable plant that has a twenty-year life, or longer. If a service provider were to construct a network that fails to meet the customer's needs after only a few years, the cost to provide broadband would be considerably greater because a second network would have to be designed and built before the first network had reached the end of its economic life. In these instances, the network that appears to be the least expensive initially may be more expensive in the end because of upgrades or network replacements that must occur.

Deploying broadband networks in areas of low customer density presents its own challenges, because the infrastructure cost per customer can be up to ten times greater than in urban areas. In rural areas it is especially important that the infrastructure deployed be easily scalable to meet the customer's future broadband needs because the replacement cost is so high.

Michael Copps (when he was the Acting FCC Chairman) recognized this when he said, "Bandwidth-intensive applications could very quickly become the norm in the U.S.—even in rural areas. Technologies that cannot be upgraded easily could make Internet applications less than 5 years from now look like the dial-up downloads of today." (Federal Communications Commission, Bringing Broadband to Rural America: Report on a Rural Broadband Strategy, Michael J. Copps, Acting Chairman, May 22, 2009)

Question 7. You mentioned the disparity in speeds set by RUS and how that undermines the technology neutral responsibilities of RUS. Is it your view that there should be a universal goal for broadband speed, and should the actual speed match what providers advertise to customers, particularly during times of peak usage?

Answer. We oppose a lesser speed standard for would-be borrowers who seek to deploy wireless networks. In the interim rules, RUS established the minimum rate of data transmission as 3 Mbps for mobile broadband and 5 Mbps for fixed broadband. Attaching a value and setting a lower data transmission requirement to mobile service is contrary to the technology neutrality statutory directive. As mentioned previously, if broadband is deployed in a scalable manner then the sky is the limit for speed, which is crucial given that it is hard to know what will be needed as more adopt broadband and use it for more complex applications and tasks. It is important that we don't put a false ceiling on broadband capability. It is difficult to predict what broadband speeds will be required in the near future, but if the past is any guide, speed requirements will continue to increase dramatically and support mechanisms should reflect such networks demands. It is also important that providers deliver what they advertise, especially at peak hours, because anchor institutions, businesses, and individuals rely on carriers advertised speeds and plan accordingly.

Question 8. Could you describe how many of your members have accepted the responsibility of being the carrier of last resort to ensure every American has access to phone service which is now shifting into access to broadband service? How many of your members participate in the RUS broadband loan program?

Answer. Nearly all of NTCA's 570 member cooperatives and commercial companies utilize the Universal Service Fund and adhere to carrier-of-last-resort responsibilities to serve every American who requests service. Small, rural providers will continue this tradition of deploying the most advanced services available to rural America as long as support is available to help them recover reasonable costs of service. The carrier-of-last-resort requirement has been successful and is an essential piece of the puzzle that ensures customers in rural telcos' service territories have advanced communication services. Without such obligations to serve all customers, some providers will continue to "cherry-pick" only the most profitable households and businesses and leave less profitable areas behind. Many NTCA members have participated in the RUS broadband loan program. The only Broadband Loan recipient since the 2008 Farm Bill was an NTCA member.

FORMULATION OF THE 2012 FARM BILL (CONSERVATION PROGRAMS)

THURSDAY, APRIL 26, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, ENERGY, AND FORESTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 9:32 a.m., in Room 1300, Longworth House Office Building, Hon. Glenn Thompson [Chairman of the Subcommittee] presiding.

Members present: Representatives Thompson, Goodlatte, Stutzman, Gibbs, Roby, Huelskamp, Hultgren, Ribble, Schrader, Owens, McIntyre, Costa, Walz, Pingree, Sablan, and Peterson (*ex officio*).

Staff present: Brent Blevins, Tamara Hinton, Josh Maxwell, John Porter, Patricia Straughn, Lauren Sturgeon, Suzanne Watson, John Konya, Merrick Munday, Anne Simmons, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

The CHAIRMAN. Good morning, everyone. This hearing of the Subcommittee on Conservation, Energy, and Forestry to discuss the conservation programs in advance of the 2012 Farm Bill will come to order. I will start out with my opening statement.

Once again, good morning and welcome. I want to welcome everyone to this Conservation, Energy, and Forestry Subcommittee hearing to examine the conservation programs in the context of the 2012 Farm Bill. Now we began the information gathering process for the next farm bill 2 years ago, and since then, we have conducted 11 audit hearings, and four nationwide field hearings to look for ways to improve agriculture programs for farmers and increase efficiency.

In the audit hearing conducted by this Subcommittee, we discussed more than 20 conservation programs administered by USDA, and identified areas of duplication and overlap. In our field hearings, we heard time and time again from farmers and ranchers across the nation about the importance of conservation programs to their livelihoods.

Now this week we began the next series of hearings on the Subcommittee level to gather input from national agricultural leaders and stakeholders. We know that voluntary conservation programs are critical in assisting producers in land management decisions and implementing conservation practices, and in many cases, conservation programs are lifelines for farmers.

Our farmers and ranchers, through the assistance and incentives provided by the farm bill conservation programs, have voluntarily worked to reduce soil erosion, increase wetlands, improve water quality, and preserve farmland and wildlife habitat. The environmental gains that they have achieved are a testament to our producers, who are truly the most dedicated conservationists.

The conservation programs have grown significantly in size and scope since the 1985 Farm Bill. The 2002 Farm Bill raised conservation spending by $17 billion over 10 years, which was an 80 percent increase. Congress increased the commitment to important programs like the Conservation Reserve Program and the Environmental Quality Incentives Program, while also creating new programs like the Conservation Stewardship Program to increase participation in conservation practices. Then the 2008 Farm Bill strengthened the conservation title with an additional commitment of $4 billion over 10 years. It includes new regional and cooperative partnership programs as well as the reauthorization and increased spending of current programs. Additionally, the 2008 Farm Bill created new conservation programs aimed at enhancing cooperation among producers and conservation organizations. Now these programs have helped support conservation initiatives in areas such as the Chesapeake Bay watershed, which has great importance to the farmers and ranchers in Pennsylvania and throughout the Mid-Atlantic region.

We had an easier time improving conservation programs in our last two farm bills when we could afford to increase spending. Today, this Committee is faced with a very different budget situation. Last fall as a part of the proposed Deficit Reduction Agreement, the House and Senate Agriculture Committees worked together to develop a proposal for the Super Committee. We put forward a proposal that streamlined program delivery in many areas, and included the consolidation of numerous programs, including several under the conservation title. While the Super Committee failed to reach agreement, the Agriculture Committees showed that they could work together to do their part. I, for one, believe the agriculture community deserves a farm bill that develops—that is developed through regular order. Regular order provides a more thorough process to really get it right when it comes to prioritizing conservation programs that are working and streamlining any programs with overlapping missions and goals.

Today, not only will the Agriculture Committee have to do our part within the overall deficit situation, but as all of us know, we have dozens of programs, including many under the conservation title, with no baseline past 2012.

The Senate put forward its draft today, its proposal for the farm bill last week, which is slated to be marked up today, and it utilizes many of the ideas produced during the Subcommittee process. It would reduce spending by approximately $6.5 billion over 10 years. As we move forward, it is important that when we find these savings, we must maintain our ability to provide the same level of on the ground service to our farmers and ranchers, and that is why we are here today, to hear your perspective on various proposals being considered as we move forward on the House side with reauthorization.

When it comes to the farm bill, which is really the most significant piece in defining public policy to guide agriculture, for me, it comes down to three principles that we have enjoyed in this country and we need to make sure we preserve into the future: that America always has the most affordable, highest quality, and safest food supply anywhere in the world.

Now I would like to thank all of our witnesses for being here today. I want to extend a warm welcome to a resident of Pennsylvania's 5th District who is going to be on our second panel, Mr. Carl Homan, fifth generation dairy farmer from Centre County, and I really appreciate, Mr. Homan, your participation here today. He has extensive experience utilizing Title II programs and will—certainly will offer his thoughts on how we should move forward.

I look forward to the testimony of all the witnesses. My sincere appreciation to each one of you coming and bringing your expertise and your experience to help us in developing a sound farm bill, going forward.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Good morning. I want to welcome everyone to this Conservation, Energy, and Forestry Subcommittee hearing to examine farm bill conservation programs.

We began the information gathering process for the next farm bill 2 years ago. Since then, we have conducted 11 audits of farm programs and four nationwide field hearings.

In the audit hearing conducted by this Subcommittee, we discussed more than 20 conservation programs administered by USDA and identified areas of duplication and overlap.

In our field hearings, we heard time and again from farmers and ranchers across the country about the importance of conservation programs to their livelihoods.

Today, we're here to discuss how to move forward. We are eager to hear your perspective on ways we can streamline and consolidate conservation programs to better serve you.

We know that voluntary conservation programs work.

Our farmers and ranchers, through the assistance and incentives provided by farm bill conservation programs, have *voluntarily* worked to help reduce soil erosion, increase wetlands, improve water quality, and preserve farmland and wildlife habitat.

The environmental gains they have achieved are a testament to our producers, who truly are the most dedicated conservationists.

Conservation programs have grown significantly in size and scope since the 1985 Farm Bill.

The 2002 Farm Bill raised conservation spending by $17 billion over 10 years, which was an 80% increase.

Congress increased the commitment to important programs like CRP and EQIP while also creating new programs like CSP to increase participation in conserving practices.

Then the 2008 Farm Bill strengthened the conservation title with an additional commitment of $4 billion over 10 years.

It included new regional and cooperative partnership programs as well as the reauthorization and increased spending of current programs.

Additionally, the 2008 Farm Bill created new conservation programs aimed at enhancing cooperation among producers and conservation organizations.

That helps target conservation initiatives in areas such as the Chesapeake Bay watershed, which has great importance to the farmers and ranchers in Pennsylvania.

We had an easier time improving conservation programs in our last two farm bills, when we could afford to increase spending.

However, as we work towards the next bill, this Committee will be faced with a very different budget situation.

Not only will the Agriculture Committee have to do our part within the overall deficit situation, but as all of us know, we have dozens of programs with no baselines, many under the umbrella of conservation.

This farm bill gives the Committee an excellent opportunity to prioritize conservation programs that are working and streamline any programs with overlapping missions and goals.

We, as a Committee, will examine how to consolidate the current conservation programs so that conservation dollars can be utilized more efficiently.

We started that effort last fall, when the House and Senate Agriculture Committees worked together to develop a proposal for the Super Committee.

Had the Super Committee succeeded, we would have put forward a proposal that included the consolidation of several programs and streamlined program delivery.

The Senate put forward its draft proposal last week, and it utilizes many of the ideas produced during the Super Committee process. It would reduce spending by approximately $6.5 billion over 10 years.

It's important that when we find these savings, we maintain our ability to provide the same level of on-the-ground-service to our farmers and ranchers.

I believe we are up to that task.

I'd like to thank all of our witnesses for being here today. I look forward to hearing your thoughts on streamlining programs today.

I want to extend a warm welcome to a resident of Pennsylvania's 5th district on the second panel.

Mr. Carl Homan is a fifth generation farmer from Centre County.

He has extensive experience utilizing Title II programs and will offer his thoughts for how we should move forward.

I look forward to your testimony and thank you for driving down here to share your experience.

The CHAIRMAN. And with this, I now yield to the Ranking Member of the full Agriculture Committee, Mr. Peterson, for an opening statement.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I want to also thank the witnesses and thank you for having this hearing today.

The conservation provisions that we put in the Super Committee bill, in spite of the fact that we had to reduce spending, I think there is a general consensus that we did a pretty good job in putting that together. It appears to be the basis for what we are going to do here moving ahead. But I would like to focus, if I could, on some issues that are important to me, and that I think need to be focused on or understood in the context of what we are doing here. A lot of it revolves around the CRP program where I see a number of our witnesses have testimony today about some of them completely contrary to each other.

But first of all, we recognize, given what is going on in the economics of agriculture and the way rental rates have gone up, land prices have gone up, that land is going to come out of CRP, and it is coming out of CRP. And I would argue that we are doing a pretty good job of sorting out what should be out and what should be in as we go through the process of these sign ups. We hope half the acres that are coming out are going back in. In other words, we are losing—6 million acres come out, we are probably going to get 3 million acres back. So we are going to end up at 25 million acres, which is what was in the Super Committee bill at some point, here in the next few years.

You know, these land prices and rental rates, as Mr. Greenspan said, we have some kind of exuberance going on in agriculture. I don't think it is going to cause the kind of bubble that we had at other times when it burst, but clearly, these prices and rental rates are, in many cases you cannot justify what is going on. But the neighbors are looking at the people that are coming to them and offering them a lot of money to break up their CRP. And so I drive around my district and I cannot—I have never seen anything like what is going on right now. The land that is being broke up—land that should not be farmed is being broke up. All of the tree lines are being taken out, all of the old homesteads are being bulldozed down. If you don't think things are changing, they are, and this is going on all over the country.

So I would argue that—and I have seen somebody in the testimony said that we should freeze rental rates. I think we should raise the rental rates. I think they are out of whack from what reality is today, and the rental rates in CRP are about 25 percent of what the rent is for farmland. Now the Secretary moved to raise the rental rates on continuous, which is fine, but you know, the pressure is on the big tract CRP. And I worked very hard to get wildlife benefits as one of the criteria for CRP, and I will guarantee you, if we lose this big tract CRP, we are going to lose the wildlife benefits that we have developed in this country. You know, you are not going to raise the kind of ducks and pheasants and deer and turkeys on just the filter strips. You need big tract CRP to spread out these predators, give the wildlife a chance to survive, and that has to be part of what we do, going forward.

So we have to focus on this as and get this right. With the haying and grazing there have been some improvements there, but frankly, this land needs to be managed. You know, there is no reason that you can't run cattle on this land, and it does more good for the wildlife and for the land than not running cattle on it. You know, we still have penalties if you allow for haying and grazing, which I don't think makes any sense.

Another thing that is still in the law that needs to be focused on is a holdover from 1985, and at that time it was not a conservation program. When CRP was started, it was to reduce production, to get lands out of production. We had too much production and the prices had collapsed, so it was about getting land out of production. So there is still a prohibition against being able to sign up CRP that it was not in the program. And so we have a lot of land in my district that should be in CRP that can't get in, that can't go into the general sign up because it doesn't have base acres. You know, that is something that needs to go away. It is no longer relevant to what is going on in this day and age, and we are keeping land out of CRP that should be in. I know of two tracts that have been broken up so that they can plant them into soybeans for 2 years so they can then get them into CRP. You know, this is—these things we need to fix in this bill this year.

The other thing we need to fix is what we tried to do in 2008, and that is the sod buster situation, and I am glad to see there is an amendment in the Senate, or I guess it is in the manager's amendment to include something very similar to what we put in in the 2008 bill in the House on sodsaver. You know, we need to get that done. We have land being broken up that has never been broken. They are dragging up rocks bigger than a house out of these things. This is land that should not be farmed, and we are allowing the crop insurance system to provide a backstop for these people to do this. They know they can break up this land and the crop insurance is going to cover them, even if they don't get a crop, and most of them know they aren't going to get a crop.

So I hope that we can focus on some of these real issues and not get off on this ideology about well, we have to take every CRP acre in the country out so we can have cheap corn. You know, that is a short-sighted policy, and you know, I understand that people liked it when we had $2 corn. You know, it made it easier for the livestock industry, but, we never had $2 corn. There wasn't any farmer that could grow corn for $2. The reason we had $2 corn was because we subsidized it, and what really stuck out, is that we got blamed, our corn farmers, for the subsidies, but actually the livestock people got the benefit. So ethanol changed all that and now we have a more market-driven system, but we shouldn't throw the baby out with the bathwater. This thing is stabilizing. We are going to have corn coming down in price over the next number of years. We should not destroy this CRP system that we put together that brought back the wildlife in this country, just because of some short-term spike in corn prices.

So now that I have vented, I will yield back. I am sure I don't have any time left. Thank you, Mr. Chairman.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good morning. Thank you Chairman Thompson and Ranking Member Holden for holding today's hearing.

The current farm bill expires in September and I am pleased that the Committee is continuing the reauthorization process with today's hearing.

Conservation programs play an important role in preserving our natural resources and provide producers with the necessary tools to meet regulatory requirements. In this budget environment, it is especially important to ensure that current conservation programs are operating as efficiently as possible.

I do believe that there are some areas of the conservation title that can be changed to both achieve savings and better reflect what's needed on the ground. One example is helping to ensure that CRP lands are available for grazing and other economic uses. This is what we tried to achieve last fall through the Super Committee process and I am pleased to see the Senate act in a similar fashion.

One issue that has recently been brought up is conservation compliance. I think that simply re-linking compliance to crop insurance could potentially cause more problems than it would solve. I'm interested in hearing our witnesses' opinions on the issue, particularly how we would administer the program because, given the budget cuts the Department has been forced to take, I'm not sure RMA or FSA or NRCS have the resources that would be needed to handle the increased workload.

An issue that is of particular importance to me, that I'm hopeful can be addressed in the next bill is regional flooding issues. I think that there are conservation programs currently in place both within the farm bill and outside of it that can be used to build up water retention sites and address flood control problems in areas of the country like the Red River Valley. Taking proactive steps now can save taxpayers money down the road after flood damage occurs.

Again, I thank the Chair for holding today's hearing and look forward to hearing from our witnesses.

The CHAIRMAN. I thank the Ranking Member. The chair would like to request that other Members submit their opening statements for the record so the witnesses may begin their testimony and to ensure that there is ample time for questions.

PREPARED STATEMENT OF HON. MARTHA ROBY, A REPRESENTATIVE IN CONGRESS FROM ALABAMA

Mr. Chairman. I want to first thank the witnesses for testifying here today on the importance of conservation and offering changes to the various programs. The conservation title of the farm bill has been vital in assisting our farmers in being better stewards of their land—helping with technical assistance and other financial assistance.

As many of you know, going into the next farm bill, we are faced with extreme fiscal constraints. We on this Committee need to make very difficult decisions in finding billions of dollars in savings while ensuring the decisions we make are the most effective, efficient and allows farmers do what they do best—farm.

Whether we are talking about nutrition, conservation or safety nets, this Committee will need to make decisions with as much information as possible and I thank all of the witnesses being here today to help us in this process.

During my travels around my district and in meetings with my Agriculture Advisory Board, I have heard concerns over the Conservation Reserve Program. A significant portion of productive farmland in my district is land rented by farmers. Over the years, these farmers—many of them who themselves are or have enrolled in CRP and other conservation programs—have seen landowners decide to enter their land into CRP rather than continue renting the productive land to farmers. This has been making it more difficult for the farmers to maintain their farms, as well as, the ability for new and young farmers to find productive land to rent for production.

Out of these conversations, last year I introduced H.R. 3454, the *Preserving Marginal Land and Protecting Farming Act.* This legislation would incrementally reduce the acres of land enrolled in CRP down from the authorized 32 million acres to 24 million acres by 2017. Additionally, it would make class I or class II land under the land capability classification system no longer eligible to be enter into CRP. Approximately 6.9 million acres of land enrolled in CRP is class II land.

I am not up here to argue that CRP is not a valuable program. CRP is an important program to ensure that marginal and highly erodible land—some land that should probably never been farmed in the first place—is taken out of farming. However, the intent of the program was not to compete against a farmer for access to highly productive land. At time that the Federal Government is looking for savings, one way is to ensure that the land in CRP is the land that the program originally intended to target.

My approach would save billions of dollars and ensure that the program is going after environmentally sensitive land. I appreciate that a number of the witnesses today have considered this and other changes to CRP that would save billions in taxpayer dollars, ensure that only the most sensitive land is protected, and that needed productive farmland is available to farmers.

Chairman Thompson, thank you for holding this hearing and I look forward to working with you in the future on this and other issues as we move forward with drafting a farm bill.

The CHAIRMAN. Welcome to our first panel of witnesses who are seated here. Before I do introductions and we get started, just a reminder, the lighting system in front of you, we ask you to limit your—we have your—be assured that each of us have had in hand your written testimony, and so for your verbal testimony please limit it to 5 minutes. The lights are meant as a reminder of that. When you hit the yellow light, you will have approximately 1 minute left. If you are like me, you need that cue, and when it hits red, 5 minutes is complete and we ask that you finish up at that point so we can leave lots of time for great exchange with questions as we go forward.

I want to welcome our first panel. Joining us we have Mr. Gene Schmidt, President of the National Association of Conservation Districts. We have Mr. Jon Scholl, President of the American Farmland Trust; Mr. Patrick O'Toole, President of the Family Farm Alliance; Mr. David Nomsen, Vice President of Pheasants Forever; Mr. Garry Niemeyer, President of the National Corn Growers Association. Thank you all, and Mr. Schmidt, please begin when you are ready.

STATEMENT OF GENE SCHMIDT, PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, WASHINGTON, D.C.

Mr. SCHMIDT. Thank you, Chairman Thompson, Ranking Member Peterson, and Members of the Committee, and special thank you, Chairman Thompson, for your opening remarks on the benefits we have made in conservation, but also the needs that we have going into the future, and thank you for your perspective on that. On behalf of the National Association of Conservation Districts that has some 3,000 member districts across the country, I thank you for the opportunity to be here today and speak for them.

As you stated, I do currently serve as the President of the National Association of Conservation Districts. My wife and I own and operate a commercial seed business in northwest Indiana, where we farm 1,500 acres of seed corn, beans, and wheat. We use a variety of conservation practices on our farm, including minimum till, strip till, no-till, cover crops, stream buffers and windbreaks, and I truly know the firsthand value of those conservation practices and necessity for strong conservation on the land.

About 2 weeks ago, as you folks are aware, more than 100 tornadoes swept across the Plains. Within the last year, we faced extreme flooding in the Mississippi and Missouri Rivers, among others, affecting thousands of producers and private landowners. We also, not so long ago, witnessed extreme wildfires in Arizona, New Mexico, and Texas. Last year, the Great Plains and the South suffered a record drought, requiring emergency haying and grazing, as you mentioned, on CRP lands. And although we experienced major weather conditions, extreme weather conditions, we did not see the reoccurrence of the Dust Bowl that we saw back in the 1930s. Why? Because we have implemented many conservation practices, programs that help mitigate the risks associated with these extreme weather events.

Conservation programs provide a strong risk management tool, mitigating many times the risks that are put on producers, landowners, home owners, and local communities throughout this country.

Conservation districts are the delivery system set up in the 1930s to be the gatekeepers of private working lands. Districts are the local authority to provide resource support for delivery, to bring partnerships and coalitions together, and in doing so, over the years we have helped to restore and maintain the most precious resources.

While we understand the current economic climate, we must also acknowledge the investing and putting conservation on the ground. Investment in conservation simply makes sense. Producers are already faced with the challenge of doing more with less. Conservation is a tool that is available to every producer. Not only do farm bill conservation programs play a role in supporting clean air, clean water, and productive soils, they also help producers implement conservation practices through voluntary incentive-based methods, rather than through a top down regulatory approach, as well as support our nation's long-term economic and food security. These programs can include developing a strong conservation plan for better accountability for Federal dollars spent, and streamlining the conservation program participation processes to allow for quicker and easier accessibility for producers and landowners.

That is why we support the Senate framework for Title II in the 2012 Farm Bill. We fully recognize the need to get our nation's financial house in order, and we understand that means cuts to farm bill programs. We are extremely pleased the Committee's leadership has come with a strong, balanced plan that fairly recognizes the critical value of locally led conservation on the landscape. We are in a situation where additional cuts to conservation programs above the $6 billion outlined in the Senate's version of Title II would put the very viability of these programs at risk. Congress needs to determine whether conservation and protection of our natural resources of today is more important than the escalated costs that we would receive as a repair of those conditions later. It is an old adage that goes like this, "An ounce of prevention is worth a pound of cure."

In light of the budget situation, NACD supports consolidation of programs as an important goal of the conservation title, and Chief White's delivery streamlining system. Farm bill conservation programs should be resource driven and locally led. The program delivery must be tailored to the natural resource needs in the state and local areas. Local conservation districts, local boards, and state technical committees help provide for that asset.

As we look into consolidation, we must be careful not to lose the critical functions that help complete the cycle of resource needs on the land.

Further decreasing the funding, the implementation of the farm bill programs would be an additional challenge. The technical assistance is critical in ensuring farm bill programs and for the implementation and accountability.

In conclusion, the farm bill programs show a track record of success. Every dollar spent has seen return. Because of the 2008 Farm Bill and previous ones you stated, we have had successes. As a producer, I use many of these programs in my own operation and know firsthand the tremendous value and return on investment that they bring to producers across this country.

Thank you for the opportunity to address the folks on the Committee.

[The prepared statement of Mr. Schmidt follows:]

PREPARED STATEMENT OF GENE SCHMIDT, PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, WASHINGTON, D.C.

Good morning, Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee. On behalf of the National Association of Conservation Districts and our 3,000 member districts across the country, I thank you for the opportunity to be here today.

As you know, I currently serve as President of NACD. My wife and I own a farm and seed business in Hanna, Indiana, where we farm 1,500 acres of seed corn, seed beans, and wheat. We use a variety of conservation practices on our land, including minimum till, no-till, cover crops, stream buffers and windbreaks. I know firsthand the value—and the necessity—of strong conservation on the land.

Two weeks ago, more than 100 tornadoes swept across the plains. Within the last year we have faced extreme flooding along the Mississippi and Missouri Rivers—among others—affecting thousands of producers and private landowners, and we also witnessed extreme wildfires in Arizona, New Mexico, and Texas. Last year, the Great Plains and South suffered a record drought, requiring emergency haying and grazing on CRP land; and although we experienced extreme weather conditions, we did not see a reoccurrence of the Dust Bowl. Why? Because we have implemented many conservation practices that mitigate the risks associated with extreme weather. Conservation programs provide a strong risk management tool—mitigating risk for producers, landowners, homeowners and local communities.

Conservation Districts are the delivery system set up in the 1930's to be the gate keepers of private working lands. Districts are the local authority to set work priorities, help producers implement practices with accountability, provide resource support for delivery, and bring partnerships and coalitions together. In doing so, we have sustained our most precious resources.

While we understand the current economic climate, we must also acknowledge the investment of putting conservation on the ground. Investing in conservation simply makes sense. Producers are already faced with the challenge of doing more with less, and conservation is a tool that is available to *every* producer. Not only do farm bill conservation programs play a key role in supporting clean air, clean water and productive soils, they also help producers implement conservation practices through voluntary, incentive-based methods—rather than through a top-down regulatory approach—as well as support our nation's long-term economic and food security. These programs can include developing a strong conservation plan for better accountability of Federal dollars spent and streamlining the conservation-program participation processes to allow for quicker and easier accessibility for producers and landowners.

That is why we support the Senate Framework for Title II in the 2012 Farm Bill. We fully recognize the need to get our nation's financial house in order, and we understand that means cuts to farm bill programs. We're extremely pleased that Committee leadership has come up with a strong, balanced plan that fairly recognizes the critical value of locally-led conservation at the landscape scale. We are in a situation where additional cuts to conservation programs, above the $6 billion outlined in the Senate's version of Title II, will put the very viability of these programs at risk. Congress needs to determine whether conservation and protection of natural resources today is more important than the escalated costs of repair in the future. It's as the old adage goes, an ounce of prevention is worth a pound of cure.

In light of the budget situation, NACD supports consolidation of programs as an important goal of the conservation title, and Chief White's Conservation Delivery Streamlining Initiative in the field. Individual, private landowners will benefit from streamlining when programs are easier to access and manage. Farm bill conservation programs should be resource-driven and locally-led with sufficient flexibility to direct funding to local priorities and concerns. Program delivery must be tailored to the natural resource needs in the states and local areas. Local Conservation District Boards, Local Work Groups and State Technical Committees must help identify local needs, apply limited financial assistance, and maximize conservation benefits.

As we look at consolidation, we must be careful not to lose any of the critical program functions that help complete the cycle of resource needs on the land. For example, consolidation includes farm bill easement programs. Easements retain working lands which over time include the operation and maintenance components that fee simple acquisitions do not. We must assure that the easement programs are maintained to provide for protection of our farmland, wetlands, and highly erodible soils. The easement programs provide a "buffer effect" to land use change, which occur on many fronts of our society as the population grows and more demand is put on our natural resources. Thus, easements effectively secure the natural resources, being protected by conservation practices, to achieve economic and environmental benefits for future generations.

With any further decreases in funding, the implementation of farm bill programs would be an additional challenge. Technical assistance is critical to ensuring farm bill programs are implemented with accountability. Technical assistance dollars will be more important than ever to ensure we have adequate capabilities to get conservation delivered. For example, we have completed successful work achieving water quality in watersheds across the country, from the East in the Chesapeake to the North in Lake Erie to the West in Oregon. By using Technical Assistance, we help producers implement practices such as using cover crops and conservation tillage to reduce soil erosion and runoff. Having a conservation plan in place allows each producer to look at his resource needs in order to address the bigger picture of resource needs.

In conclusion, these farm bill programs show a track record of success, and every dollar spent has seen a return. Because of the 2008 Farm Bill, we are better prepared to meet future resource needs, and we must continue to fund these programs. As some have referenced, we think the conservation title may be the hallmark of the 2012 Farm Bill. As a producer, I have used many of these programs on my own operation and know first-hand the tremendous value and return on investment they bring to the producer and even more importantly, to society.

This concludes my testimony. Thank you, again, for allowing me the opportunity to be here today. I am happy to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Schmidt.

Mr. Scholl, go ahead and proceed when you are ready for 5 minutes.

STATEMENT OF JON SCHOLL, PRESIDENT, AMERICAN FARMLAND TRUST, WASHINGTON, D.C.

Mr. SCHOLL. My name is Jon Scholl. I am the President of the American Farmland Trust. We spent the last 30 years working at the intersection of agriculture and the environment. We work to protect farmland from unsound farming practices, and keep farmers on the land. Before joining AFT, I had the privilege of serving 4 years as the ag counselor to the EPA Administrator in the last Bush Administration. Before that, I worked 25 years for the Illinois Farm Bureau in a variety of capacities, but throughout my entire career, I am very proud to say that I have lived on and been a partner in a family farming operation in McLean County, Illinois.

Our farmers and ranchers face great pressure to produce food, fiber, and fuel while maintaining healthy soils, protecting water quality, and providing wildlife habitat. Rapidly rising world food demand creates incredible economic opportunity for agriculture, but it also makes it even more imperative for us to address the conservation challenges we face here at home.

In light of these challenges, I offer five key points. First, funding for conservation is critical. The need and demand for assistance is so great that in any other situation, I would be asking for more money for these programs, as I am sure many of us would. Four out of every ten applications for EQIP are rejected for lack of funding. The Farm and Ranch Land Protection Program has a whole year of projects waiting to be funded. But in spite of this and in light of the critical budget challenges our nation faces, we believe effective conservation solutions can still be provided with the $6 billion in cuts called for last fall by the Super Committee, as well as the recently released proposal from Senators Stabenow and Roberts.

Second, we urge support for our Farm and Ranch Land Protection Easement Program. We have lost 23 million acres of farmland to development between 1982 and 2007, an area the size of Indiana, yet we are expected to produce more food than ever before. Permanent conservation easements protect agricultural land from development, safeguard local agriculture economies, and help farmers and ranchers transition their land to the next generation. We support the creation of a Consolidated Working Lands Easement Program to take over the functions of the Farm and Ranch Land Protection Program, and the Grasslands Reserve Program. However, it is important that the working lands easement option remain distinct from easements that seek to retire fragile land from production. The Agricultural Conservation Easement Program created in the Senate proposal is an excellent model for this.

Third, we support the new Regional Conservation Partnership Program contained in the Senate proposal. This program gives local producers and conservationists a tool to come together to address natural resource concerns. It is also competitive and merit-based, which means that the resources will go where they can do the most good. This model represents a huge leap forward in how conservation is delivered, allowing us to be very strategic in spending our limited conservation dollars.

Fourth, we believe that EQIP and CSP provide distinct benefits and must remain separate programs. EQIP assists with individual practices. CSP helps farmers and ranchers take additional steps needed to achieve a high level of conservation performance on the whole farm. We propose enhancing CSP by increasing its focus on local conservation priorities, tightening the eligibility requirements, and tying program benefits to measurable conservation performance.

Fifth, we believe conservation compliance should continue to be attached to the centerpiece of the farm safety net as it has been in the past. Given the likely changes in the safety net, this means reattaching it to the crop insurance premiums support. The Economic Research Service has reported that in the last 25 years, conservation compliance has reduced annual soil erosion on our most vulnerable soils by 40 percent. Another ERS analysis shows that if we act now, very few additional farmers would come under the compliance provisions with their reattachment to crop insurance. RMA and crop insurance agents would not have new burdens. Compliance works. It needs to remain an important component of the new farm safety net.

We must not lose ground, either on our farms and ranches, or our farm policy. I applaud your efforts to craft a conservation title that will help to assure our resource base is protected and meet the growing need for food, fiber, fuel, and in a time of tightening budget constraints. Your work is important. We are prepared to help you meet our common challenges.

Thank you.

[The prepared statement of Mr. Scholl follows:]

PREPARED STATEMENT OF JON SCHOLL, PRESIDENT, AMERICAN FARMLAND TRUST, WASHINGTON, D.C.

Good morning,

Chairman Thompson, Ranking Member Holden and other Members of the Committee, thank you for inviting me to testify today. My name is Jon Scholl. I am the President of American Farmland Trust, which is headquartered in Washington, DC. I am also a partner in a family farm in McLean County, Illinois.

American Farmland Trust is an organization that has for the last thirty years worked at the intersection of agriculture and the environment. We work to protect farmland and promote sound stewardship while keeping farms and ranches economically viable. Before joining American Farmland Trust, I had the privilege of serving for 4 years as the Agricultural Policy Counselor to the Administrator of the United States Environmental Protection Agency during the Administration of George W. Bush. Before that, I worked at the Illinois Farm Bureau for 25 years in a variety of capacities.

I want to start by thanking Chairman Lucas and Ranking Member Peterson, as well as Subcommittee Chairman Thompson and Ranking Member Holden, for taking the initiative to work on the farm bill this year in the midst of all the partisanship and budget challenges here in Washington. I look forward to working with you to pass a farm bill this year, because we all know that the budget situation will likely be worse if we are forced to wait a year.

As someone involved in my family's farm operation, a former EPA agricultural appointee, and the President of American Farmland Trust, I have seen the benefit of the farm bill conservation programs from many different angles. These programs are critically important tools for meeting the conservation challenges that we face.

Having spent my life in agriculture, I know that farmers and ranchers across this country feel increasing environmental pressure as concerns mount over threats to soil, water quality, air quality, and wildlife. This pressure is coming not just from regulators, but from citizens and, increasingly, the corporations to whom we sell our products. At the same time, I know that farmers and ranchers have a deep regard for the land and take their responsibility as stewards very seriously. The farm bill conservation programs are the key bridge between this stewardship ethic and the pressures that farmers face. They are the "fair deal" between producers and the rest of society, where both parties contribute resources and both benefit, whether from greater resilience and efficiency on the farm or from abundant natural resources and a cleaner environment. In a world where we try to solve most environmental problems through regulations, these programs are voluntary and incentive-based. They work for farmers, which means that they also work for the environment.

Between the conservation programs, conservation compliance, and independent efforts, farmers and ranchers have already made big conservation gains. They reduced soil erosion by 40 percent between 1982 and 1997. They retired over 30 million of their most sensitive acres, turning them over to native plantings that provide wildlife habitat and build healthy soils. And they reduced losses of nitrogen and phosphorous by a fifth to a half in the Upper Mississippi River Basin and the Chesapeake Bay Region. Benefits in other areas of the country will be disclosed in future USDA reports.

Nevertheless, there is much more work to be done. Indeed, the U.S. Department of Agriculture indicates that the agriculture sector is the largest source of nutrient loading in the country's impaired rivers and lakes and a major source of air pollutants like ammonia, nitrous oxide, and methane. Agriculture is also the source of seven percent of U.S. greenhouse gas emissions. According to USDA, 62 percent of the cropped acres in the Upper Mississippi River Basin require additional conservation treatment, and 15 percent are "critically under-treated." In the Chesapeake Bay, 80 percent need treatment and 19 percent are critically under-treated. These numbers are not just abstract figures; they are a threat to the strength and resilience of American agriculture. Farm and ranch production depends on natural resources like healthy soil and abundant, clean water.

At the same time, world food demand is exploding. By 2050, the world will hold 2.3 billion more people. Incomes will rise, leading to more demand for meat and dairy products. World consumers will require over a billion more tons of grain and 200 million more tons of meat. Overall, food production will have to increase by 70%. This astonishing rise in demand represents an opportunity for agriculture as an industry, but it will also intensify pressure on natural resources.

Clearly, if we are going to maintain a thriving agriculture sector, continue to protect our natural resources, and provide the food security that is so central to our national security, we must have a strong conservation title in the next farm bill. We cannot lose ground. This will be a challenge given the budget constraints that we face, but we at American Farmland Trust have some proposals that can help achieve that goal. We developed these proposals through workshops with farmers and ranchers from across the United States and extensive research.

Funding

Adequate funding is critical to the success of the conservation programs. However, given the budget environment, we believe that the funding level established in the Agriculture Committees' recommendations to the Super Committee is a fair deal. This proposal limited the conservation title cut to roughly $6 billion, or ten percent of the 10 year baseline, and the Senate's draft bill does the same. I urge the House Agriculture Committee to hold the line on this funding level.

The need and demand for the conservation programs is so great that in any other situation I would be telling you that we need more money. We have a great suite of conservation programs in place to deliver that assistance, but the funding is never adequate to meet the demand.. For example, four out of every ten applications for EQIP assistance had to be rejected for lack of funding in FY 2010. The Farm and Ranch Land Protection Program has a backlog of a whole year of projects waiting for funding. Producers are waiting to enroll hundreds of thousands of acres in the Wetlands Reserve Program and Grassland Reserve Program, and millions of acres in the Conservation Stewardship Program. When farmers and ranchers are lined up to do the right thing for their operations and for the environment, and they are making a substantial investment of their own money, Congress should be willing to help. I know that you have difficult decisions to make, but I urge you to keep these important factors in mind when making your funding decisions.

Farmland Protection

One of the most important functions the conservation title plays is to protect farm and ranch land from development and ensure that it is available for productive agriculture. The need is great. Our country lost 23 million acres of farmland to development between 1982 and 2007, an area the size of Indiana, yet we are expected to produce more food, fiber and fuel than ever before. Every minute of every day, more than an acre of farm and ranch land is lost to agriculture forever.

Luckily, there is a solution: the permanent protection of farm and ranch land. As of July 2011, state and local government farmland protection programs in 30 states had collectively protected over 2.5 million acres of agricultural land, with help from Federal programs. In addition, this mechanism has been shown to help facilitate the transfer of farms to the next generation within farm families, to enable beginning farmers to access land at an affordable price, to support local economic development activity and to encourage investments by farm-based businesses in farm communities stabilized with protected farmland.

Today, both the Farm and Ranch Land Protection Program (FRPP) and the Grassland Reserve Program (GRP) contribute to the permanent protection of farm and ranch land. Since its creation is 1996, FRPP has helped state and local governments and private partners in the land trust community protect over 810,000 acres of valuable agricultural lands. Since FRPP works through local partnerships that leverage state, local, and private funds, FRPP projects have leveraged nearly two non-Federal dollars for every Federal dollar spent. In addition, the local entities handle the lion's share of the administrative duties involved in completing projects.

Given the budget situation and the call for simpler conservation programs, we support the creation of a consolidated working lands easement structure to take over the functions of FRPP and GRP. We believe this will reduce bureaucracy and make the system easier for farmers and ranchers to use. Both the Super Committee proposal and the Senate draft bill include an Agricultural Land Easement (ALE) option that would achieve this goal.

Any new consolidated easement structure must reflect the core principles that American Farmland Trust has advocated for over many years. We call them the Three P's: purpose, permanence and partnerships. First, the purpose must be to protect working lands and keep them working. Second, all easements must be permanent. And finally, the easements must work through local partnerships that provide flexibility and leverage non-Federal funds. As part of the partnership structure, we feel it is important that local entities be required to contribute some cash matching funds to ensure that they have skin in the game. The draft Senate bill's ALE program embodies these principles and I urge this Committee to follow this tried-and-true formula as you put together your easement package.

The Three P's are noteworthy in part because they distinguish working land easements from the other main easement program in the conservation title, the Wetlands Reserve Program (WRP). WRP retires land from production rather than protecting working lands, includes term easements as well as permanent easements, and operates in a top-down manner with the Natural Resources Conservation Service (NRCS) executing the transaction directly with the landowner, rather than through state and local partners. While we strongly support WRP and recognize that there is a desire to consolidate all of the easement options into one program, we believe that it is critical that any consolidation proposal reflect these key differences. The Senate's proposed Agricultural Conservation Easement Program achieves this differentiation nicely.

Another feature that will help working land easements be efficient and effective is a certification process for partners. This will allow highly experienced partners to carry out farmland protection work with fewer bureaucratic requirements from NRCS, including less frequent updates of the partner's formal agreement with the agency. This process reflects the reality that some state and local entities have been engaged in farmland protection work longer than USDA and have sophisticated programs that are tailored to local needs. Certification ensures effective oversight with the minimum regulatory burden. Both current law and the Senate's draft bill include a provision for a certification process for partners, and I encourage the House to do the same.

I urge the Committee to provide robust funding for a consolidated working lands easement option in your final bill. In addition, if you choose to consolidate working lands easements and wetlands easements under one umbrella, there must be a firewall between the funding for the two options. We support the structures in the Super Committee proposal and the draft Senate bill, which achieved this firewall while also allowing some level of flexibility within individual states.

Strategic Conservation

One of the best opportunities we have to advance conservation in spite of tight budgets is to adopt what we call "strategic conservation." Historically, our conservation delivery system has been designed to provide assistance to anyone who signed up as a cooperator. This has done a great job getting a base of conservation on the land, but when you measure it against the significant challenges we face as an industry, it can amount to what NRCS Chief Dave White calls "random acts of conservation." Prior farm bills have started a move to more strategic conservation through programs like the Cooperative Conservation and Partnership Initiative (CCPI) and the Agricultural Water Enhancement Program (AWEP). We need to continue that move in the coming farm bill.

Strategic conservation is founded on the basic principle that all acres are not created equal. Conservation challenges are concentrated in particular parts of the landscape. For instance, some fields are more prone to runoff than others, some watersheds have more acute water quality problems, and some regions contain more threatened wildlife habitat. We need to have a mechanism to concentrate our efforts in these areas and get a critical mass of conservation on the ground. This strategic approach will help us to really move the needle on our most critical conservation challenges, which in turn will help stave off or beat back regulation and demonstrate to the public that agriculture is improving the environment.

Past efforts to focus on critical areas have been derailed when it seemed that bureaucrats were making arbitrary decisions as to which areas were important and which were not. This is why we support a bottom-up model where local stakeholder partnerships identify a conservation challenge and apply through a merit-based system to receive NRCS assistance in addressing it.

One of the most important benefits of strategic conservation is that producers can be involved in driving the effort. Farmers and ranchers know best what works on their land and, with technical assistance support, how to implement it most effectively. Involving them up-front in a strategic initiative with a clearly defined goal can help the initiative succeed by improving participation and developing win-win solutions. For instance, the success of the NRCS Sage Grouse Initiative is due in part to the leadership of local ranchers, who saw the production benefits of improving wildlife habitat.

AFT has had success leading a CCPI project to reduce nitrogen losses in the Upper Salt Fork Watershed in Champaign County, Illinois. This project has significantly raised awareness of the issue and used targeted approaches to increase adoption of innovative practices that retain nitrogen fertilizer on farmland, including split fertilizer applications. Local farmers and conservationists alike have praised the partnership-based project structure.

Strategic conservation can do a lot for the cost-effectiveness of conservation. For instance, according to USDA, conservation efforts in the Upper Mississippi River Basin would be four-to-five times more effective at stopping per-acre phosphorous, nitrogen and sediment losses, if they were applied to the right acres. This shows in stark terms just how effective it is to focus conservation efforts on "critically under-treated acres." By conducting scientific assessments at the beginning of the effort, strategic conservation efforts can identify these critical acres and direct financial and technical assistance to the producers who manage them. This simultaneously helps the farmers who are most in need and maximizes environmental benefits from our limited conservation dollars.

Finally, strategic conservation can strengthen the current conservation delivery model by enabling partnerships among diverse stakeholders. Partnerships are critical to the success of efforts that involve a wide variety of interests and that cross political jurisdictions, as many resource concerns do. They can improve outreach and engagement, bring additional resources to the table, break down administrative barriers that would otherwise exist, and extend the life of the project beyond the day when the Federal funding dries up.

The 2012 Farm Bill must enshrine strategic conservation as an essential tool in the conservation toolbox and outline standards and procedures to ensure effectiveness and accountability. In order to be most effective, individual projects should be able to draw on each of the core conservation programs—working lands, easements, and land retirement—so that they always have access to the right tool for the job. To ensure that the strategic conservation model demonstrates its worth and maintains the support of agricultural producers and taxpayers alike, we propose that every project should be required to collect outcomes data and provide public reports on their achievements. The Super Committee proposal and the draft Senate bill both included a Regional Conservation Partnership Program that fits this model, and I urge this Committee to include a similar structure in your bill.

The potential benefits of strategic conservation are so great that we would support devoting up to 20% of the mandatory funding for the core conservation programs to this approach. This would reserve the majority of conservation funding for producers across the landscape, while making a bold investment to help solve the most vexing conservation challenges that we face.

Conservation Stewardship Program

We strongly support the Conservation Stewardship Program (CSP) because we believe it plays a unique role in the suite of conservation programs. In light of budget constraints, CSP's distinctive aspects must be accentuated to ensure that it complements the Environmental Quality Incentives Program, and steps must be taken to ensure that CSP is delivering the maximum additional benefits with every contract.

CSP's unique features include:

(1) *Whole-Farm Systems:* CSP requires producers to enroll their entire operations and focuses on management-based conservation systems that apply to the entire production system, not single practices for individual areas of the farm.

(2) *Five-to-Ten-Year Contracts:* CSP contracts last for 5 years with the possibility of renewal for another 5 years, as opposed to EQIP contracts, which finish when the conservation practice has been applied. This enables adoption of more complex conservation systems.

(3) *Baseline Performance:* Producers must have attained a "stewardship threshold" of conservation for at least one resource concern prior to enrolling in the program, which gives producers an incentive to apply basic conservation, either through EQIP or independently, in order to gain acceptance into CSP.

(4) *Minimum Performance Requirement:* Producers must attain the stewardship threshold for at least one priority resource concern by the end of their contract term. This focuses the program on the most important local problems and gives producers a target to shoot for.

(5) *Performance Measurement:* Acceptance into the program and level of payments are based on the additional conservation performance that producers commit to achieve over the life of their contract. This represents the beginning of a much-needed paradigm shift in the conservation programs, from focusing on the "outputs" that program can achieve, such as acres of practices or miles of fence, to focusing on the actual conservation "outcomes" that deliver real benefits for the land.

Given these unique benefits of CSP, we believe that EQIP and CSP must remain separate, rather than being merged. The distinctions between them are too great. However, it is imperative that EQIP and CSP be coordinated so that producers are not confused and each program can specialize and excel in its own objectives. We believe that the following proposed changes would make CSP both more distinct from EQIP and more complementary of it. Our three main program changes—strengthening the focus on priority micro-resource concerns, improving additionality, and continuing the move towards pay-for-performance conservation—make it clear that CSP is focused on helping farmers and ranchers *take additional steps to achieve a high level of conservation performance on a whole-farm basis.* EQIP remains the go-to program for addressing discrete conservation challenges on an operation and implementing a basic level of conservation.

First, we propose that the program ranking criteria be modified to strengthen the focus on local conservation priorities. Currently, NRCS State Conservationists select 3–5 priority *macro*-resource concerns, out of a total of eight, to focus on in the different regions of their state. These *macro*-resource concerns are relatively blunt instruments: Soil Erosion, Soil Quality, Water Quantity, Water Quality, Air Quality, Plants, Animals, and Energy. We recommend that State Conservationists instead be required to select 5–6 priority *micro*-resource concerns out of a total of 28. *Micro*-resource concerns are much more detailed. Examples include gully erosion, soil salinity, insufficient water, nutrient loss, airborne soil particulates, and terrestrial wildlife. Prioritizing at this finer level would significantly strengthen the program's focus on the most pressing concerns, yet allow flexibility as priorities change from year to year. It would more precisely reflect the challenges in each CSP sub-state ranking area and provide a greater measure of local control.

Second, steps must be taken to increase the amount of additional conservation performance producers are required to achieve during their contracts. Most importantly, the eligibility requirements should be modified. Currently, the eligibility requirements for initial contracts only require producers to address one priority macro-resource concern to the stewardship threshold by the end of the contract period. We recommend that producers be required to achieve the threshold level for two priority macro-resource concerns. In addition, the contract ranking factors should be tweaked to ensure that new conservation performance is weighted more highly than existing performance. Finally, eligibility requirements for CSP contract renewals must be increased to ensure that producers are providing significant additional conservation benefits through their renewed contracts.

Finally, CSP must continue to advance toward measuring producers' actual conservation performance. This presents a technical challenge for NRCS, and must be balanced against concerns for user-friendliness, but it would greatly improve the program's cost-effectiveness, allow more sophisticated application ranking, and help demonstrate the program's public benefits.

Conservation Reserve Program

The Conservation Reserve Program (CRP) has been the subject of much debate recently, in light of high commodity and land prices. We do not presume to know the right number of total acres for this program. However, we do believe that it is possible to adapt the CRP for today's circumstances. In a nutshell, we believe that CRP must be focused on retiring the most fragile land. There are currently 6–7 million acres of highly productive land in the program, mostly as a result of the practice of enrolling whole fields. Going forward, we believe that whole field parcels in diverse landscapes should be split in order to enroll the more sensitive areas while allowing the productive areas to be farmed. This would increase the overall benefits per CRP acre while integrating it more seamlessly into the working agricultural landscape.

Conservation Loan

I want to briefly mention another powerful tool for stretching conservation dollars: the Conservation Loan Program that was included in the 2008 Farm Bill. While it is located in the credit title, this provision must be considered as part of the suite of conservation programs.

The Conservation Loan Program offers a huge bang for the buck. Its budget cost is near zero yet it yields $150 million in loans for implementing conservation practices based on an approved conservation plan. These loans help producers access up-front capital for large conservation investments and allow them to amortize the cost. Conservation loans must be fully repaid.

This program could be strengthened by revising the current statute to allow USDA to guarantee up to 90 percent of the loan principal amount, rather than 75 percent. This would bring conservation loans in line with other USDA loan programs. In addition, the program must maintain its current balance between direct loans and guaranteed loans. The vast majority of conservation loans currently are direct loans through the Farm Services Agency. However, the Office of Management and Budget is pushing to offer only guaranteed loans. We believe that producers should have the option to either seek a guaranteed loan through a private lending source or to apply for a direct loan through USDA.

Technical assistance

One method of improving the cost-effectiveness of the conservation programs that is often overlooked is to provide adequate technical assistance (TA). TA is the science-based process of assessing resource concerns, educating producers about options for addressing them, and designing conservation plans that fit smoothly within a farm operation. TA helps ensure that producers apply fully functioning conservation practices, reducing the likelihood that a buffer strip erodes or an animal waste lagoon leaks. Producers often cite TA as the most important factor influencing their adoption of conservation measures. In many cases, excellent TA can render financial assistance unnecessary.

The growth of the conservation programs over the past few farm bills has severely stretched NRCS's TA resources. We have three proposals to address this concern:

(1) *Align Mandatory TA funding with Producer Needs:* Currently, the funding for technical assistance from mandatory farm bill programs is only available after a contract is signed. This is too late in the planning process. The trigger for charging NRCS technical assistance to mandatory conservation programs should be earlier in the conservation planning process, if the producer's statement of objectives includes obtaining farm bill conservation program assistance.

(2) *Leverage Private Resources:* The use of third party technical service providers can augment NRCS resources by providing certified soil and water conservation professionals to assist producers plan and implement conservation practices in locations where the workload exceeds the capacity of local field offices.

(3) *Focus TA Resources on Critical Areas:* NRCS must be enabled to focus field staff to address high-priority resource concerns in order to achieve more intensive planning, outreach and implementation on those concerns.

Conservation Compliance

I have laid out a number of changes that we believe can strengthen the conservation title programs and make them more cost-effective. There is one additional conservation provision that is highly effective, voluntary, and doesn't add to the Federal budget: conservation compliance. Conservation compliance is an important good-government provision. It ensures that we are not paying producers out of one hand to take actions that will negatively impact natural resources, while also paying them out of the other hand to implement conservation practices. It only applies to producers who choose to accept certain USDA program payments. Under conservation compliance, these producers must agree to implement basic conservation measures that protect soil on highly erodible lands and must refrain from draining wetlands for crop production.

Our modest proposal is that this system, which has applied to commodity support payments and other programs since 1985, and which applied to the crop insurance premium subsidies until 1996, be reattached to crop insurance premium subsidies going forward. This has recently become a contentious issue. To my mind the controversy is needless and shortsighted. I would like to offer three main points for consideration on the subject.

First, conservation compliance is a highly effective tool in protecting soil and wetlands. The USDA Economic Research Service has reported that in the past 25 years, conservation compliance has reduced annual erosion on our most vulnerable soils by 40%. That comes out to 295 million tons of soil saved annually—enough to cover the National Mall from the steps of the Lincoln Memorial to the steps of the Capitol, at twice the height of the Washington monument. In addition, in that same time period we've gone from losing tens of thousands of acres of wetlands on farms every year, to actually gaining wetlands. Conservation compliance has been a major factor in achieving the goal of no-net-loss of wetlands on farms. In short, compliance works.

Second, we are at risk of losing ground on compliance. It appears that subsidized crop insurance is on track to become the centerpiece of the farm safety net as Direct Payments go away. Since crop insurance is not covered by conservation compliance, this may significantly reduce the incentive for farmers to continue following their conservation compliance plans—putting soil and wetlands in jeopardy. To be clear, compliance would still apply to the conservation programs, disaster payments, loans and the new Title I, but if it is not applied to the core of the safety net, its effectiveness will be greatly diminished.

Third, conservation compliance should be integral to the new farm safety net, no matter how it's configured. Since 1985, compliance has been a successful part of farm policy, helping to justify spending taxpayer dollars on commodity programs and giving farmers an additional incentive to protect the long-term productive capacity of their land. This arrangement needs to continue into the future. As crop insurance becomes the focal point of the future safety net, we need to assure that it carries the same responsibility farmers have become accustomed to with farm programs of the past.

I believe compliance represents a covenant between farmers and society. It is reasonable for society to expect a basic level of stewardship to be applied in exchange for programs that help provide some measure of economic stability on the farm. I know farmers know it's the right thing to do, despite the political debate this issue gets caught in here in Washington, D.C.

The good news is that if we make this change today, we will spare farmers from difficult changes. They will not face new administrative headaches. They will still be able to purchase their crop insurance, get their bank loans, farm their land and receive crop insurance indemnities, just like they do now. If a farmer is found to be out of compliance at any point, and they exhaust the 1 year grace period without coming back into compliance, they would merely lose eligibility for the Federal crop insurance premium *subsidy*. Their crop insurance coverage would not go away—and neither would their loans or their indemnities—just the subsidy, and just until they come back into compliance. And just to be very clear, no farmer will ever be kicked out of compliance because of a big rainstorm—the program already has a clear exemption for extreme weather.

If we act now, very few *additional* farmers would be subject to conservation compliance. The impact would be limited to, at most, five percent of wheat production, two percent of corn and soybean production, and less than one percent of cotton and rice production.

The crop insurance industry also will not face major new headaches. With better than 80% participation and a significant reinvestment in the coming farm bill, crop insurance enrollments are not likely to be in jeopardy. Crop insurance agents would not do any enforcement. NRCS and FSA would spot-check and enforce just like they do now under farm commodity programs.

Conservation compliance is a proven, effective conservation tool and a key accountability measure to help ensure taxpayer support for the farm safety net. It only makes sense that it should be attached to the primary safety net program, as it has been in the past.

Conclusion

As the Members of this Committee well know, our country is richly blessed with abundant natural resources, most of which are on private farms and ranches. When producers and the public cooperate, we can do a lot to safeguard the productive capacity of our farm and ranch land and ensure abundant natural resources for all. The farm bill conservation title is the opportunity for agricultural producers to come together with their fellow taxpayers to address the challenges ahead and lay a strong foundation for the future of agriculture. Again, we cannot afford to lose ground.

The Agriculture Committees' recommendations to the Super Committee and the draft Senate bill both contain many excellent conservation provisions. I am confident that this Committee will be able to build on these efforts to craft a robust conservation title, despite the budget challenges.

Thank you, Mr. Chairman, for the opportunity to share our views on these important issues. I would be happy to address any questions you have.

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American Farmland Trust is the nation's leading conservation organization dedicated to saving America's farm and ranch land, promoting environmentally sound farming practices and supporting a sustainable future for farms. Since its founding in 1980 by a group of farmers and citizens concerned about the rapid loss of farmland to development, AFT has helped save millions of acres of farmland from development and led the way for the adoption of conservation practices on millions more.

The CHAIRMAN. Thank you, Mr. Scholl.

Mr. O'Toole, go ahead and proceed with your 5 minutes.

STATEMENT OF PATRICK O'TOOLE, PRESIDENT, FAMILY FARM ALLIANCE, WASHINGTON, D.C.

Mr. O'TOOLE. Thank you, Mr. Chairman, Ranking Member Peterson, and Members of the Committee. It is a great opportunity for me to be here. I am President of the Family Farm Alliance. We represent farmers and ranchers that irrigate in the 16 western states.

Water is the bottom line for us. We work with the Bureau of Reclamation. Bureau of Reclamation irrigators are our members.

We think that the conservation title of the farm bill is a critical part of our future, and in the West, I appreciate the comments of Mr. Peterson on what is working in his district, and it is so interesting in this country how differentiated the 100th Meridian where rainfall is more prodigious than other areas, but water is the bottom line for all of us. Whether it be climate-driven, changes in how rainfall comes—last year we had the wettest year in our history. In 1881 our ranch started. We have been there 130 years. Last year was the wettest year we ever had. This year is the driest.

What I will tell you in this farm bill, we are moving in a future where there are clearly less dollars going to be available to implement programs. You all know that. We know that. What we need is flexibility. I use the word nimble. We have to be able to understand that farmers are the ultimate adjusters. We adjust ourselves, we—Family Farm Alliance wrote a paper 6 years ago about climate. We were some of the first ones to talk about the issue, and what we need is adaptability, and we need a Federal Government that understands that adaptability so that we can react to whatever that climate reality is.

So I would tell you that Family Farm Alliance was involved in the last farm bill. We worked on a program called AWEP, the Agriculture Watershed Enhancement Program. There is magic going on, I can tell you specifically, in the West. I call it the Islands of Renaissance that are happening all over the western part of the United States, and it is because farmers, ranchers, conservationists have gotten together to understand the critical needs of working together. We have a directive from every part of the Federal Government, whether it be the State Department or whether it be international agencies telling us we have to produce more food. We have to do that in the context of conservation.

Our ranch has sort of a motto that there is no intrinsic contradiction between conservation and production if we are smart enough to do both, yet it is going to be the programs that come through with—in our minds and in the Family Farm Alliance experience, much more on the ground relationships where devolvement of some of the responsibilities that come out of D.C. need be much more state-driven and much more local. So I think that is our message.

One of the other messages that I was asked at a conference recently, what are the things that make you wake up in the middle of the night, and the number one priority for the Family Farm Alliance is the fact that we do not have enough young people in agriculture. I think this Committee is cognizant of that, and we have to make a real effort to realize that we have to have more young people. The numbers of eight percent of farmers are under 36 years of age, that just isn't, in our minds, sustainable.

I come from a district in southern Wyoming and northern Colorado conservation district, and I don't know how Mr. Schmidt ranks his membership of conservation districts, but we think ours is one of the most successful. We have the largest river restoration in the United States within our CS. We have a project with Trout Unlimited on fish passage and endangered species issues that is phenomenally successful. The message that came to me as I came back here to talk to you was that it is that local component, that ability to leverage dollars. And what is happening in these Islands of Renaissance that I talk about is not just the Federal dollars. The Federal dollars are leveraged dollars for other dollars, and it is so critically important and why we emphasize the AWEP program and that it be done in a way so that entire irrigation districts, entire conservation districts, can participate, leveraging the dollars in a much more efficient way.

I thought on one other thing that is very recent in terms of what wakes me up in the middle of the night, and we have had such success with our river restoration. I call it the integration of irrigation and fishery. I went out the other day to check on some cows that we are calving, and I looked up over this area that is filled with endangered fish, and there was a whole rookery of great blue herons. Those herons are now benefitting from the tremendous work we have done on the fishery, maybe to the expense of some of the fishery. So, everything is a balance, but what I would like to just express to you one more time is that—make these programs as local as possible and as flexible as possible, and give farmers the chance—farmers and ranchers the chance to improvise on the reality of the future that we are going to be looking at.

Thank you so much for this opportunity.

[The prepared statement of Mr. O'Toole follows:]

PREPARED STATEMENT OF PATRICK O'TOOLE, PRESIDENT, FAMILY FARM ALLIANCE, WASHINGTON, D.C.

Good morning, Chairman Thompson, Ranking Member Holden, and Members of the Committee. My name is Patrick O'Toole, and I serve as President of the Family Farm Alliance (Alliance). I am honored to be here today to discuss farm bill conservation programs and the challenges and opportunities facing western farmers and ranchers who depend upon adequate water supplies that irrigate the arid West.

The Alliance is a grassroots organization of family farmers, ranchers, irrigation districts and allied industries in 16 western states. The Alliance is focused on one mission: To ensure the availability of reliable, affordable irrigation water supplies to western farmers and ranchers. We are also committed to the fundamental proposition that western irrigated agriculture must be preserved and protected for a host of economic, sociological, environmental and national security reasons—many of which are often overlooked in the context of other Federal policy decisions.

Today, irrigated agriculture in the American west faces some of the most vexing and complex challenges in addressing crucial water quantity and quality issues. Water is the lifeblood of irrigated agriculture in the West, and the ever growing competing demands for water many times outstrips the available supply, setting up conflict between farmers and cities, the environment and even between other farmers over limited and uncertain irrigation water supplies. Given the increasing importance of growing a safe, stable supply of abundant food for this nation and the world, we must continue to manage and protect these limited water supplies necessary to adequately and efficiently irrigate western crops so important to meeting this goal. And, through the conservation programs authorized by the farm bill, necessary water and natural resource conservation and management tools and partnerships are made available to farmers and ranchers that can help them to successfully meet these challenges.

The future of American agriculture may very well hinge on policy decisions your Subcommittee and the Committee on Agriculture will address in the coming months. The Alliance believes that, by utilizing the examples of successful American food and fiber producers, private landowners, and on-the-ground conservation practitioners, your Subcommittee has a unique opportunity to make farm bill title II programs more effective, more efficient, and more user-friendly. This is especially important now, with the tough budget times we are facing and will continue to face in the near future.

The Alliance supports incentive-driven conservation programs, more local and state control of the funding for those programs, increased emphasis on deteriorating forested watersheds, and streamlined implementation. We have specific recommendations on how to improve the Agricultural Watershed Enhancement Program (AWEP). And we are concerned that over half of today's active farmers and ranchers are between 45 and 64 years old. We must find ways to encourage young farmers and ranchers to stay with agriculture, and farm bill conservation programs that can be tailored to help achieve that goal.

We believe the practical experience of our membership, coupled with the many agricultural water and natural resource policy issues our organization has been involved with over the past several years gives us a unique perspective to provide specific ideas on how conservation programs can be delivered more efficiently and encourage more participation from western farmers and ranchers. On behalf of the Alliance, I urge you to consider the recommendations included in this testimony to achieve this goal.

Introduction

The most important policy for keeping farms and ranches intact and healthy, while providing the environmental protections sought by society is a strong economy. Farm bill conservation programs fill an essential niche in maintaining a strong quality of life in the rural West. For more than 75 years, American taxpayers have invested in conservation through the farm bill. These investments in private lands and waters have delivered cost-effective benefits far beyond the property lines of farmers and ranchers, extending robust returns for every taxpayer who buys food at the market, enjoys fresh air and clean water, and recreates in the great outdoors. These returns include significantly improved fish and wildlife habitat, improved air, soil and water quality, ensured long-term productivity of our agricultural lands, increased outdoor recreational opportunities, and increased financial returns for rural communities.

Rural America faces unprecedented challenges to its competitiveness in crop production and its sustainability as a steward of natural resources and wildlife habitat. Funding provided by Natural Resource Conservation Service (NRCS) programs is leveraged many times over with a multitude of private, state and other Federal funding sources—a model of programmatic efficiency. Yet, the real power of farm bill conservation programs has proven to be the "boots on the ground" ability to fully realize the potential for innovative and non-traditional partnerships. Such partnerships have yielded measurable and practical results shown to enhance competitiveness and bolster sustainability.

"Western Water Management Case Studies"

The Family Farm Alliance played an active role in the development of the last farm bill's conservation title. In particular, working with a diverse coalition of commodity groups, conservation organizations, and urban water users, we helped develop the framework that ultimately became the Agricultural Water Enhancement Program (AWEP). In 2010, we released a report (*Western Water Management Case Studies*) that describes a dozen real-world examples of water conservation, water transfers and markets, aging water management infrastructure problems, and watershed restoration and enhancement projects. An important objective of this report was to demonstrate that water managers, ranchers and farmers are resourceful and creative individuals who should play an active role in resolving the water conflicts of the West. My testimony today incorporates some of the "lessons learned" from that report and touches on other matters critical to the future of western farmers and ranchers' ability to provide food, fiber and energy to our nation and the world.

Observations and Recommendations on Water Conservation Programs

In the western U.S., we need policies that encourage agricultural producers to work together with each other and with many applicable Federal and state agencies in a strategic, coordinated fashion. This is especially true now more than ever before due to the limited financial resources of the Federal Government and the need to continue to effectively and efficiently protect our limited natural resources so important to this nation's food productivity. We have prepared the following observations and associated recommendations that we would like to see incorporated into the next farm bill.

Concerns with AWEP

AWEP is a newly-established part of the Environmental Quality Incentives Program (EQIP), a program administered by the Natural Resources Conservation Service (NRCS). The main difference between typical EQIP projects and AWEP projects is that applications for project funding are made directly to the U.S. Secretary of Agriculture from an organization on behalf of a group of agricultural producers who intend to make water conservation improvements in a geographic area.

The Family Farm Alliance was part of a diverse coalition formed during the crafting of the last farm bill that focused exclusively on the development of the AWEP concept. Our primary motive for engaging in this process was to provide additional funding opportunities for irrigation districts and other agricultural water delivery and management organizations to solve aging infrastructure and water conservation challenges in a more coordinated and effective manner. The original concept behind AWEP was to focus on cooperative approaches to enhancing water quantity and/or quality on a regional scale. This new program—in tandem with multiple conservation tools (including farmland management practices, easement purchases, and ecosystem restoration assistance)—was intended to provide flexibility to cooperative nontraditional conservation partners to achieve improved water quantity and quality goals.

Some of our members have witnessed firsthand the types of challenges that AWEP advocates were trying to address. For example, the 2002 Farm Bill contained $50 million of EQIP funding to implement water conservation measures in the Klamath Basin of northern California and southern Oregon. These Federal funds were matched by $12.5 million of local money from individual landowners. While the water conservation measures undertaken undoubtedly contributed to improved water use efficiency on individual farms, the EQIP program was not designed to coordinate conservation benefits to meet specific regional goals, such as conserving water for storage and future use. Irrigation districts and other, larger conservation entities, which many times coordinate conservation projects to maximize benefits, were not eligible to compete for these funds to make the necessary improvements to the delivery system to effectively capture this conserved water to meet unmet demands. We believe this was an opportunity lost, one that could have provided regional water supply solutions to some of the complex problems experienced in Klamath.

Our interest in implementing AWEP, in part, was intended to address these types of challenges. There is a need to fund projects that provide water quality and/or water quantity improvements at a scale that benefits more than just the individual participating producers. In many instances, coordinated regional water conservation efforts can lead to improved water quantities and quality that can only be physically captured and managed by the water delivery organizations to meet overall goals and objectives. We had hoped that AWEP would provide substantial matching grant funding to irrigation districts or other water agencies, which are already in a position to work with multiple producers to achieve locally-generated, measurable objectives and results. If consensus at a regional level can be reached on a coordinated and integrated approach to conserving water to meet unmet needs, there will be a better chance of positive community participation and ultimately, a much larger return on the Federal investment.

In our view, the original AWEP proposal was solid from a conceptual standpoint, but by the time the concept made it through the legislative and administrative process, the program that is now in place is not being implemented in a manner consistent with the original vision. In Arizona, for example, state NRCS local working groups came up with a list of priorities and resource concerns at the request of NRCS headquarters in Washington, D.C. While irrigation efficiency was one of the highest priorities listed, local working groups noted that AWEP simply was not being applied in a way that could maximize its potential benefits. Rather than providing funds directly to irrigation districts, the districts instead have been put in situation where they essentially pass the phone number of the local NRCS office on to the individual landowner, and NRCS takes over from there. In essence, this AWEP has simply become an expansion of the existing EQIP program, which was definitely not the intent when this concept was crafted 4 years ago.

We also have grave concerns regarding recent AWEP spending priorities. Almost 50% of the $4.7 million in AWEP programs funded in FY 2011 in seven western states emphasized “focusing on the transition of irrigated cropland to dryland agriculture use” or to “permanently retire” irrigated cropland. The original intent behind AWEP was to find ways to help farmers and ranchers improve water conservation, management, reuse and efficiency while keeping their operations viable. Using farm bill conservation programs to eliminate irrigated agricultural lands altogether at a time when worldwide demand for food is growing every day defies common sense.

Recommendations to Improve AWEP

We must create opportunities within the new farm bill to further improve upon AWEP’s initial concept, such as:

- Provisions should allow AWEP to provide direct payments to irrigation districts to work directly with their landowner member farmers on NRCS-approved coordinated water conservation and management projects. While NRCS should still approve the contracts, we believe more efficient results that provide measurable, coordinated improvements on the ground will occur if the irrigation districts distribute the funds and work with the landowners directly. These districts can provide opportunities for innovative solutions to water management problems that currently cannot be achieved simply due to bureaucratic barriers and narrowly focused programs. Administrative expenses for such partners should be allowed, but capped;
- Irrigation districts and/or landowners should be allowed to implement water conservation or water quality projects outside of the normal projects funded

under the EQIP program, given that they can show improvements to either water quantity or quality;

- Irrigation districts or similar entities should be allowed to be the basis for "pooling" arrangements, where the benefits of a project which affects multiple landowners is funded by "pooling" their individual AWEP interests into a larger, coordinated project;
- Direction must be provided to improve how NRCS program administrators deliver timely and accurate information, provide reliable and transparent processes, and set firm deadlines;
- Administrative costs associated with any work performed by the NRCS should be capped at a reasonable level;
- The role of the Bureau of Reclamation in coordinating with NRCS in the implementation of this program in western states must be well defined, and should compliment the collaborative philosophy (between the Departments of Agriculture and Interior) embedded in the "Bridging the Headgates" initiative endorsed by both the Bush and Clinton Administrations;
- The program should provide assurances that the intent is not to reallocate water away from agriculture, but to help stretch limited water supplies for future regional beneficial use. We do not believe AWEP monies should be used to retire farmland or convert irrigated ground to dryland crops. It must also recognize the traditional deference of Federal agencies to state water laws and allocation systems;
- The money obligated for these programs in the farm bill needs to be "no year" money, so that it doesn't have to all be obligated in the first year, with nothing left in later years. This has proven to be real hindrance for projects that take more than 1 year to build. Water managers have also noticed that the NRCS funding levels fluctuate, and so they are never sure what level of funding their farmers will receive. During the application process to secure funding, NRCS should agree how much a district is going to receive and ensure this money will be there. To minimize administrative complications, sharing some of the control over funds with the partnering irrigation districts would simplify the responsibilities of the NRCS. Districts could be held accountable through audits and reports delivered to the NRCS. We would be happy to sit down with Committee staff and NRCS leadership to help create a workable and efficient solution to this challenge; and
- We have previously shared proposed draft language with NRCS that could address the issues concerning NRCS entering into agreements with irrigation districts on AWEP activities in a manner similar to how NRCS enters into EQIP agreements with Tribes. We would be happy to share this with Committee staff to gain additional thoughts on this matter.

We look forward to working with your Committee further to help improve this vital program.

The Need to Support Local Efforts to Manage Western Watersheds: A Case Study

We strongly believe that local, regional and state land managers should be encouraged and provided the tools to lead watershed enhancement efforts. The best decisions on natural resources issues happen at the state and local level. The 2010 Family Farm Alliance case study report includes one such example in the Little Snake River watershed of Wyoming, where my family operates a sheep and cattle ranch. Since 1991 numerous agencies, organizations, and NGO's have recognized landowners and the local governmental natural resource agency, the Little Snake River Conservation District (LSRCD), as leaders in natural resource conservation. Numerous articles featuring work conducted by the LSRCD, area land owners, and its partners have been featured in popular publications like the *Farm Journal, Beef Today, Bugle Magazine, Wyoming Wildlife,* and *Range* magazines as well as peer reviewed journal publication in the *Journal of Soil and Water Conservation* (2008) and the *Journal of Rangeland Ecology* (2009).

These successful efforts have all been locally-led. Conservation of natural resources in the Little Snake River Basin integrated with agrarian life style and perpetuation of this culture is the highest priority for the local community in the Little Snake Basin. In Wyoming, the local residents have passed a conservation property tax to carry on this work. Since 1990 this tax has generated approximately $8 million in local revenues. These funds have leveraged over $40 million dollars in project money to implement conservation and development projects in the Little Snake River Basin.

Today, the Little Snake River Basin hosts a myriad of wildlife and robust natural resources while sustaining compatible agricultural uses and natural resource-based recreation businesses. This was accomplished through local leadership and commitment of the Little Snake River Conservation District working collaboratively with over 30 different partner organizations and agencies that have assisted in the conservation of the Little Snake Basin, in a collaborative locally-led process.

Innovation in Conservation Program Delivery

Direct funding to large umbrella organizations to implement conservation on a landscape, district, or regional scale must be included in the new farm bill. Excessive administration, expensive, and time consuming delays are the norm under the current system, where numerous individual contracts are held with individual land owners. Significant administrative and financial savings could be realized through single contracts with umbrella organizations such as conservation districts, irrigation districts, watershed coalitions, grazing associations, and other nongovernmental organizations that could significantly decrease the cost of program delivery and increase efficiency.

There are over fifty farm bill programs, including dozens under the conservation title—CRP, WRP, EQIP, AWEP, *etc.* Some of these programs should be consolidated. Also, under current policies, agency officials in Washington, D.C. allocate these funds—based on Federal, national priorities—and the states are handed down specific funding for each of the individual programs. So, for example, one state may receive from Washington, D.C. $6 million in WRP funds which may not even be needed in that state, whereas EQIP programs which are in high demand in that particular state are under-funded. Our members believe local farmers and ranchers who are interested in implementing conservation projects would be better served if the Federal NRCS puts all the conservation money for a given state into just a handful of funding programs. Then—let the states determine which programs get funded.

The present priority system places too much emphasis on whatever national policy is driving current decision-making. In the past, the states local priorities drove 50% of the decision-making criteria. Now, it appears that projects are first evaluated on whether or not they meet national priority, which accounts between 10–25% of the total ranking. In essence, this ends up disqualifying meaningful local projects, and by default drives funding towards those river basins which have the most national political clout.

Local and state priorities should be the drivers of conservation. One size does not fit all. Conservation needs of a rice farm in Arkansas are much different than those of a rancher in Wyoming or a coffee producer in Hawaii. Local control for identification of conservation needs and allocation of funding must be restored. We believe the national priority ranking criteria should be completely eliminated, and instead, a block of conservation funds should be provided to each state, where local and state priorities end up driving how funds are spent on the ground, consistent with each program's authorities and goals. States should be allowed to voluntarily assume primacy for implementation of the conservation title of the farm bill with block grants to the states. This would result in increased efficiency and delivery of conservation needs within each state. Most state have mirror agencies, Departments of Agriculture, Wildlife, Natural Resources, and Engineers that have the capacity to implement conservation programs. This type of approach is already in place for portions of the Clean Water Act. Significant cost saving to the Federal Government could be realized by reduction in duplicate effort with the states.

Reorganization of USDA

Another concern expressed by many of our farmers and ranchers is that, unlike the situation that occurred prior to the 2002 Farm Bill, Farm Services Agency (FSA) and NRCS are both now staffed to provide financial accounting services. Since inheriting the financial administration of the conservation title in the 2002 Farm Bill, NRCS has become increasingly a financial administrative agency, with the Government Accounting Office (GAO) continually redirecting the agency to move towards financial administrative compliance and accountability. This has resulted in shifts in expenditures away from providing conservation technical assistance to farmers and ranchers in addition to changes in personnel within the agency from soil scientist and agronomist to contract specialist and accountants. In a nutshell, this can lead to both agencies using precious conservation dollars on accounting duties, when those funds would be better served supporting on-the-ground conservation projects.

We recommend that the next farm bill direct that accounting services be placed back into the hands of FSA, where those duties were competently performed prior to the 2002 Farm Bill. We want to see NRCS doing what it does best, which is providing conservation technical assistance to all producers. This could ultimately better position NRCS at the local level by putting more emphasis and funding in support of state and local conservation experts, instead of placing them in a position where they have to crack the whip on program accounting. Streamlining the functions of both agencies would also result in significant savings while having no impact of delivery of the farm bill. Savings would be realized in personnel, equipment, supplies, transportation, and overall overhead expenditures.

Conservation Recommendations from Related Farm Bill Policy Forums

The Family Farm Alliance continues to build coalitions and create alliances to advocate for constructive changes to the farm bill conservation title that benefit irrigated agriculture. We are lead partners in the Johnson Foundation national freshwater "Call to Action", the Western Agriculture and Conservation Coalition, and the 2011 blue ribbon panel convened by the Natural Resources Conservation Service. I also serve on the advisory committee for AGree, a new national high-profile initiative to transform food and agriculture policy. All of these forums will likely have an influence on the emerging farm bill. I'd like to summarize below some of the key recommendations derived from two these forums, which I believe fortify the general philosophy contained in our above recommendations.

Recommendations of the Western Agriculture and Conservation Coalition

A western coalition of agricultural and conservation organizations has come together to urge that Congress pass the farm bill this year and maintain conservation program funding. As a member of the steering committee for the Western Agriculture and Conservation Coalition, we seek to advocate for balanced management of resources in the rural West. Following the 2012 Family Farm Alliance annual conference in Las Vegas last February, we met with representatives of the California Farm Bureau Federation, Trout Unlimited, Wyoming Stock Growers Association, The Nature Conservancy, Arizona Public Lands Council, Environmental Defense Fund, Public Lands Council and the Irrigation Association and announced the formation of this unique coalition, which seeks to advocate for balanced management of resources in the rural west. The goals of the Coalition are to support the common interests of agriculture and conservation through targeted education, advocacy, and outreach and to engage decision makers and resource managers in the spirit of collaboration to further a shared vision for a rural west that is economically and environmentally sustainable. For the 2012 Farm Bill, this Coalition believes:

- Priority Title II programs must receive sufficient funding so that on-farm operational, resource conservation, local economic, and rural sustainability goals are met;
- Enhanced programmatic efficiencies can be achieved, which will facilitate access to program funding, and lead to more effective project implementation and fewer obstacles for landowners and conservation partners. Improving the Agricultural Water Enhancement Program is one such example;
- Program delivery could be improved and yield broader positive impacts if interagency cooperation among and between resource management agencies and the USDA was better-defined; and
- Local, regional and state land managers should be encouraged and provided the tools to lead watershed enhancement efforts at the landscape level.

From a personal standpoint, working with this coalition has been positive and rewarding, and a refreshing change from some of the tired and worn messaging we constantly hear from more agenda-driven activist groups who use the farm bill as a forum to actually denigrate farmers and ranchers. This is unfortunate, because this sort of negativity does not reflect what is truly happening on the ground. Our recent involvement with the Coalition leads us to believe that policy makers and the public appreciate the positive examples of how conservation groups and farmers and ranchers can work collaboratively with government agencies on "win-win" solutions that are good for agriculture and the environment. We should be thinking of ways to mobilize the public to act favorably on issues that are critical to maintaining economically viable ranching and conservation of resources and to demonstrate the important partnership between land stewards and conservation interests.

The Coalition has emphasized that continued funding of Title II priority programs produces results that are timely, effective, more efficient and jobs-oriented. This coalition continues to urge Congress to preserve funding for USDA conservation programs and to take steps to provide farmers and ranchers with the resources necessary to continue enhancing soil, water quality and wildlife on agricultural land. For further detail on the Coalition's specific recommendations, please see the copy of the Coalition's March 2, 2012 letter to Congressional agriculture committees, which is attached to this testimony.

Recommendations of the Resource Conservation Act Blue Ribbon Panel

In late 2010, I was appointed to a Blue Ribbon Panel established to support the development of the NRCS Program and Policy Statement. The first meeting of the Panel occurred in early 2011 in Washington. Over the next several months, I helped organize and spoke at three western regional workshops and the National Agricultural Landscapes (NAL) Forum, held here in Washington, D.C. Several other Family Farm Alliance leaders were chosen to speak at the regional workshops, as well. In the end, we supported the following major recommendations that emerged from the NAL:

- *Improve Jurisdictional Flexibility and Share Responsibility*—Local state, tribal and regional directors must be allowed to make resource decisions and to innovate based on local conditions.
- *Improve Program Efficiency and Inter-Agency Cooperation*—Greater facilitation of inter-agency learning and cooperation is required to improve conservation outcomes.
- *Target Regulations and Reduce Uncertainty*—the U.S. Department of Agriculture (USDA) must harmonize regulations to avoid redundant requirements that do not enhance protection.
- *Leverage Program Assistance to Maximize Program Effectiveness*—Partnerships and leveraging state, local and private funding are essential to achieving resource conservation goals.
- *Expand Market-Based Solutions*—Government can play a supportive role in developing ecosystem market regulatory and environmental quality standards.

We urge your Subcommittee to review the findings presented at the NAL Forum and seek to incorporate these recommendations and this type of philosophy to improve delivery of farm bill title II programs.

The Critical Need to Incentivize and Encourage Young Farmers

We are in danger of losing a generation of young farmers, and productive farmlands and western agriculture's traditional water supplies are transferred to other uses as multiple demands for water increase. This is all happening at a time when the United Nations projects that the world will need to produce 70 percent more food by 2050 to keep pace with world population growth and hunger. Nationally, the median age of active farmers in America has never been higher, with the percentage of farmers under 50 years old continuing to plummet. More than half of today's farmers are between 45 and 64 years old, and only six percent of our farmers are younger than 35.

While there is renewed interest among young people to enter farming today, unfortunately the larger trend is an increase in the average age of the American farmer. To reverse this course, our country must take bold action to ensure that aspiring farmers have access to land, health care, capital, education and training. Congress should invest now in a farm bill that helps young Americans enter into and succeed in farming, and that creates incentives for diversified and sustainable agriculture.

The next farm bill should create policies that can attract and retain young farmers to benefit the future of American agriculture, as well as the stability of America's food supply. One specific action that would help would be for Congress to reauthorize adequate funding for the Beginning Farmer and Rancher Development Program (BFRDP). More generally, another means of bringing new faces into agriculture and keeping young people in the business is to create a more certain, relaxed and reasonable regulatory environment. Increasingly, we hear reports that level of Federal regulations affecting American agriculture has reached such a magnitude that family farmers and ranchers fear regulations more than most other stressors in their profession. These conversations are often about the frustration they feel over the amount of time they spend dealing with regulations and bureaucracy in managing their business. All of these regulations hit small family farmers the hardest, since they often do not have the resources at their disposal to deal with the maze of the required paperwork and regulatory record-keeping. These sometimes daunting requirements could be moving young people to choose careers other than farming, at a time when there aren't many young people left in this line of work.

Today, our own western farmers and ranchers are being subjected to potentially restrictive and duplicative Federal regulations on many fronts. Many of these rules have cropped up in just the past 2 years. The related uncertainty that comes with all of this increased regulatory scrutiny will make it much harder for these farmers to survive in such a harsh economy. Eliminating just a few of these farmers could impart huge limitations on our future ability to feed our country and the world.

Western family farmers and ranchers need to be shown—through leadership and development of common sense agriculture and water policy priorities—that what they do everyday really does matter to this country. The Family Farm Alliance has spent much of the past decade developing specific, common-sense recommendations for more effective regulations that would protect the environment, human health and safety in a more streamlined and effective manner. While we understand that the focus of today's hearing is on the conservation title of the farm bill, this issue is critically important to the future of western irrigated agriculture. At the appropriate time, we would be happy to share those recommendations with you and other Members of the Committee on Agriculture.

Conclusion

Throughout the western United States, family farms and ranches have facilitated the conservation and stewardship of the region's natural resources while anchoring our rich cultural heritage and identity. It is a landscape and a way of life that works for rural economies and resource conservation. Here, private land stewardship is the key to continued conservation innovation, resource and habitat enhancements, and sustainable working land partnerships. It is a region in which farmers and ranchers have been finding ways to successfully balance resource stewardship and their bottom line, thanks in part to the availability of farm bill conservation programs.

We need Federal land and water policies that are based on sound science and that reward producers who care about the environment in providing affordable food and fiber and bringing economic health to our rural communities. We need to encourage young agricultural producers, rather than litigious, anti-agriculture activist groups. Properly managing watersheds and encouraging Federal agencies to work with the agricultural community to solve local water problems are imperative.

Thousands of water and land conservation projects have been completed across the western United States, and these efforts should continue. We urge this Subcommittee and the Committee on Agriculture to continue to make farm bill conservation programs a priority and to fund these programs accordingly.

We stand ready to further assist you in your efforts to more effectively utilize farm bill programs to the benefit of both agricultural production and natural resource conservation results.

Thank you for this opportunity to provide testimony to you on this matter, which is very important to the family farmers and ranchers of our membership.

ATTACHMENT

March 2, 2012

Hon. DEBBIE STABENOW,
Chairwoman,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.;

Hon. PAT ROBERTS,
Ranking Minority Member,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.

Re: Farm bill conservation priorities for coalition of western agriculture and conservation groups

Dear Chairwoman Stabenow and Ranking Member Roberts:

Throughout the western United States, family farms and ranches have facilitated the conservation and stewardship of the region's natural resources while anchoring the region's rich cultural heritage and identity. It is a landscape and a way of life that works for rural economies and resource conservation. Here, private land stewardship is the key to continued conservation innovation, resource and habitat enhancements, and sustainable working land partnerships. It is a region in which farmers and ranchers have been finding ways to successfully balance resource stewardship and their bottom line, thanks in part to the availability of farm bill conservation programs. Managing water quantity and quality is a key resource concern for the undersigned groups.

Unfortunately, these constructive partnerships and the environmental benefits they generate will disappear if we cannot find ways to bring more farmers and ranchers into the fold and encourage young farmers to stay in the business. Nationally, the median age of active farmers and ranchers in America has never been higher, with the percentage of farmers under 50 years old continuing to plummet. More than ½ of today's farmers are aged between 45 and 64, and only six percent of our farmers are younger than 35. The next farm bill needs to reflect a philosophy that can attract and retain young farmers for the future of American agriculture, and the stability of America's food supply.

The most important policy for keeping farms and ranches intact and providing the environmental services sought by society is a strong economy. Farm bill conservation programs also fill an essential niche in maintaining a strong quality of life in the rural West. For more than 75 years, American taxpayers have invested in conservation through the farm bill. These investments in private lands and waters have delivered cost-effective benefits far beyond the property lines of farmers and ranchers, extending robust returns for every taxpayer. These returns include significantly improved fish and wildlife habitat, improved air, soil and water quality, ensured long-term productivity of our agricultural lands, increased outdoor recreational opportunities, reduced regulatory burdens on farmers and ranchers, and increased financial returns for rural communities. Farm bill activity should be enhanced by further encouraging the development of private markets that reward landowners for good actions on the ground while creating environmental benefit.

For these reasons, a western coalition of agricultural and conservation organizations has come together to ask you to pass the farm bill this year and maintain funding for conservation programs important for the West.

This coalition urges Congress to preserve funding for USDA conservation programs and to take steps necessary to provide farmers and ranchers with the resources necessary to continue enhancing soil, water quality and wildlife on agricultural land. With this letter, the coalition outlines a set of principles that lawmakers should observe as they seek ways to trim the Federal deficit and proceed with writing the conservation title of the 2012 Farm Bill. While many of the undersigned organizations have additional priorities for the 2012 Farm Bill, the following recommendations represent the priorities on which we have reached consensus.

1. **Agriculture Water Enhancement Program, Cooperative Conservation Partnership Initiative, Wildlife Habitat Incentive Program, Farm and Ranch Lands Protection Program, Grassland Reserve Program, Environmental Quality Incentive Program are particularly important to achieving conservation and rural economic and social goals in the West. These programs in Title II must receive sufficient funding so that on-farm and on-ranch operational, resource conservation, local economic, and rural sustainability goals are met.** Some specific policy changes to consider:

- Strengthen conservation programs to increase accessibility and ensure they work better for more producers.
- Maintain current funding levels for the priority programs.
- Eliminate $50K payment limit for WHIP.
- Allow third parties to hold GRP easements directly after execution, without requiring the easements to first be held by USDA.
- Ensure that EQIP remains available for use across all land ownerships.

2. **Enhance programmatic efficiencies to facilitate easier access to program funding, more effective project implementation and fewer obstacles for landowners and conservation partners** (for example, improving the Agricultural Water Enhancement Program). Specific recommendations include:

- Strengthen NRCS Technical Assistance capacity for both program implementation and non-farm bill conservation planning.
- Consolidation should enhance conservation outcomes.
- Consolidation of conservation programs must be structured appropriately so as to increase flexibility for USDA while maintaining purposes of priority programs like EQIP, GRP and WRP.
- In AWEP and CCPI, allow qualifying partners to help producers address resource issues in a more flexible and efficient manner so they can maintain profitability and avoid potential future environmental regulatory actions.
- Maintain current provisions in AWEP and CCPI requiring partners to commit resources to projects while providing USDA with discretion to prioritize pro-

posals from partners who offer the most additional resources for project implementation.

- Continue and expand applicability of WRP Reserved Rights Pilot Program where determined by the USDA to be consistent with existing conservation plans and as a tool by which to achieve resource conservation objectives.
- Remove 7 year ownership requirement for WRP.
- Changes to CRP to provide more flexibility for adjusting grazing frequency so long as the ecological functions of the land and water are maintained. Additionally, allow wild horses owned by the Bureau of Land Management to graze CRP acres consistently with maintaining ecological integrity. BLM would make payments to landowners for this service.
- Changes to WRP, GRP, and FRPP to allow increased flexibility regarding third party involvement including management of easements and meeting non-Federal matching requirements.

3. **Program delivery could be improved and yield broader positive impacts if interagency cooperation is better defined.** Additional recommendations:

- Throughout the conservation title, ensure that priority be given to projects that address the greatest resource concerns most effectively. Provide for greater interagency coordination at Federal, state and local levels in the development and delivery of conservation.
- Ensure that the long tradition of partnerships among USDA, private landowners, and conservation partners is continued, encouraged and expanded.

4. **Local, regional and state land managers should be encouraged and provided the tools to lead watershed enhancement efforts.**

- NRCS at the state level should be encouraged and provided the resources to more effectively engage with partners in watershed planning, enhancement and restoration efforts.
- Strengthen partnership-driven programs such as AWEP and CCPI, which allow partners including local, regional and state land managers to lead watershed enhancement efforts.
- Provide for greater flexibility within such partnership programs, including making the funding approved for such projects "no year" money, thus enabling large and complex watershed-scale conservation initiatives to be leveraged to their greatest potential.

5. **Support Beginning Farmers and Ranchers.**

Reauthorize funding for the Beginning Farmer and Rancher Development Program (BFRDP).

We appreciate your consideration of our interests and look forward to working with you to put together the strongest conservation title possible that is responsive to western as well as national interests.

Signed,

The Western Agriculture and Conservation Coalition Steering Committee:

Trout Unlimited
Family Farm Alliance
The Nature Conservancy
Public Lands Council
Environmental Defense Fund
California Farm Bureau
Arizona Public Lands Council
Wyoming Stock Growers Association
Irrigation Association

Affiliates:

The Freshwater Trust
Montana Stock Growers Association

CC:

Hon. Frank D. Lucas,
Chairman,
House Committee on Agriculture;

Hon. COLLIN C. PETERSON,
Ranking Minority Member
House Committee on Agriculture.

The CHAIRMAN. Thank you, Mr. O'Toole. Now I yield to the Ranking Member for the purpose of the introduction of our next witness.

Mr. PETERSON. Thank you, Mr. Chairman. Mr. Nomsen is a constituent of mine, even though he works for a national organization which I would say is the premiere group in terms of providing wildlife habitat technical assistance and benefits. He and I were at a Pheasants Forever banquet in my district a couple of weeks ago, and that little chapter there in Otter Tail County raised $3 million of private money to work with what we are doing here in Congress. So Mr. Nomsen has been the lead guy on the conservation issues in the last couple farm bills for the wildlife interests, and we welcome him to the Committee.

STATEMENT OF DAVID E. NOMSEN, VICE PRESIDENT OF GOVERNMENTAL AFFAIRS, PHEASANTS FOREVER, INC., ST. PAUL, MN

Mr. NOMSEN. Thank you, Mr. Chairman, Ranking Member Peterson. You know, that Otter Tail chapter banquet that we were at, Mr. Peterson, was Minnesota's leading chapter last year and as you mentioned, they did $3 million worth of work out there with our farmers and landowners in that area, a tremendous success story for the Otter Tail chapter.

It is my pleasure to be here today also representing the views of the Association of Fish and Wildlife Agencies, Ducks Unlimited, the Izaak Walton League of America, Pheasants Forever, the Theodore Roosevelt Conservation Partnership, the Mule Deer Foundation, Masters of Foxhounds, the Campfire Club of America, Wildlife Forever, the Archery Trade Association, the Wildlife Management Institute, Hope and Young Club, Quail Unlimited, the Boone and Crockett Club, the Dallas Safari Club, the National Rifle Association, Orion the Hunter's Institute, the Wild Sheep Foundation, Delta Water Fowl, the Catch a Dream Foundation, and Whitetails Unlimited.

Clearly, farm bill conservation programs are of importance to our nation's sportsmen and sportswomen, and of course, support our nation's hunting heritage.

The farm bill conservation title is driven by proven successful programs, and we certainly support programs like Conservation Reserve and the Wetlands Reserve Program. The Voluntary Public Access Habitat Incentive Program, or "Open Fields" Program, was part of the 2008 Farm Bill, and while it is relatively new, it has been a tremendous success. Access to private lands is incredibly important to all of our members, and farmers and landowners benefit from reduced liability in these situations, so it has become a real win-win across the country to complement conservation and lands that are open to the public for hunting.

I would like to caution the Committee, however, about the Conservation Reserve Program. I have lived in the prairie region of the country, the northern plains for my entire life and career. I have lived in Iowa, South Dakota, North Dakota, and now in Minnesota, of course, and I too have never seen the pressures that are on the landscape right now. You cannot drive anywhere without coming across new rock piles that are out there on native prairies, lands that have never, ever seen a plow before, very shallow, thin soils in some cases, on very steep slopes. Shelter belts being plowed up, CRP lands leaving the landscape, and in some cases, these decisions just aren't going to be sustainable, and I am very concerned about what is happening out there right now.

I am glad we have the Conservation Reserve Program to help with these issues. CRP now has a 25+ year history, becoming one of USDA's flagship most successful conservation programs, and it has evolved and it needs to continue to evolve to fit that landscape and work with our nation's farmers and landowners. You hear a lot about the targeting of the CRP Program, and I would like to mention that in my view, when you talk about targeting, you also talk about that mix of large tracts of CRP, along with selective small areas. We cannot have a CRP that is just buffer strips and small odd areas here and there. While that may work for some species of wildlife that are edge species and don't need those types of habitats, if we want to have a CRP that works for the wildlife legacy that helped reauthorize that program in the 1990s, we are talking about a program that doubled and tripled pheasant populations, provided several million more water fowl annually to the fall flight. For those types of benefits to continue, we do need large tracts of lands in CRP, planted to good covers, and managed appropriately for wildlife and wildlife benefits.

CRP has many other benefits, of course, as well. I recall testifying before this same Subcommittee a number of years ago. One of the points in my testimony in the mid-1990s was the fact that the CRP Program was providing the economic stability and security to the point that 28 percent of North Dakota's farmers were still on the farm because of CRP. Clearly, times have changed, but it is a point that really talks about the strength of that program over time, and it needs to continue as a flagship program.

In 2007, commodity prices spiked somewhat and about 2½ million acres mostly left the CRP Program. Right now we are in the middle of a general signup for CRP, and as others have indicated, probably about 3 million acres or so is going to be leaving the program as well, a majority of those lands likely coming back into commodity production. My point is that the farmers, the landowners, the contract holders are making those decisions, and the program is working and it needs to continue to work on a voluntary basis with those farmers and landowners making their best decisions about what to do with those lands.

Last fall, as the leadership of the committees worked on the Super Committee process and worked up a framework for the farm bill, we were pleased that there was a lot of bipartisan support from both sides, and like others before me, I am going to support the Senate mark that is up this morning. I say that reluctantly. We are going to take $6 billion away from conservation programs. There are consequences to that in terms of soil, water, and wildlife resources, and clearly, I am concerned about the potential reductions, especially to the Conservation Reserve Program. However, we have to find ways to do more with less, and one of the things we are doing is through our Farm Bill Biologists Program at Pheasants Forever, helping farmers and landowners make good decisions about the suite of resource conservation programs that are available. Recently they helped with forums and workshops around the country to provide CRP signup. They are doing a great job in the West as sage grouse managers for the Sage Grouse Initiative through NRCS as well.

Last, our groups support the continuation and the expansion of conservation compliance. We are especially proud to support the sodsaver provisions that were included in the Senate mark this morning. It is a strong policy that will help complement conservation programs that go forward at perhaps reduced levels.

Thank you, Mr. Chairman, for the opportunity. I look forward to the questions.

[The prepared statement of Mr. Nomsen follows:]

PREPARED STATEMENT OF DAVID E. NOMSEN, VICE PRESIDENT OF GOVERNMENTAL AFFAIRS, PHEASANTS FOREVER, INC., ST. PAUL, MN

Mr. Chairman, Members of the Committee, my name is Dave Nomsen. I am the Vice President of Governmental Affairs with St. Paul, MN based Pheasants Forever and I reside in Garfield, MN. I am a professional wildlife biologist with expertise in wildlife and farm bill conservation policies and programs.

I am here today representing the 700 nationwide chapters of Pheasants and Quail Forever and our 140,000 members. These chapters complete on average more than 30,000 individual projects annually with conservation minded farmers and ranchers on 300,000 acres. The vast majority of these projects is completed on private lands and involves grassland establishment and management. Projects involve the establishment of nesting, brood rearing, and winter cover for pheasants, quail, and a wide array of wildlife.

Collectively, our members and supporters represent a sizable cross-section of our nations' citizenry, and we appreciate the increased role and importance of conservation in agriculture and its role in private land stewardship that has led to consensus and partnerships among government and private interests, farm and commodity groups, individual farmers and ranchers, and hunters and anglers.

I am pleased today to not only offer our views but also those of the Association of Fish and Wildlife Agencies, Ducks Unlimited, Izaak Walton League of America, Pheasants Forever, and the Theodore Roosevelt Conservation Partnership.

While we all know that conservation programs protect the soil, clean the water and create abundant wildlife habitat, what we often overlook is the economic activity generated through conservation. For example, hunters and anglers spend approximately $86.1 billion pursuing their passions every year. Wildlife watchers spend roughly $51.3 billion each year. These expenditures include everything from rods and reels, guns, ammunition, boats, decoys, bows and arrows and tree stands, to hotel stays and dinners in small rural towns across the country. Jobs related to these expenditures are important, especially in the small, rural towns throughout America, and most importantly, these are jobs that stay at home and cannot be exportable to other countries. In South Dakota alone the total economic value of just pheasant hunting has been estimated at $253 million dollars per year. Adequately funded conservation title programs protect both the hunting and angling economy as well as our agricultural and rural economy. It's equally important to note that during these increasingly difficult times, sportsmen spending generates $406 million in Federal taxes per year and state and local taxes of $378 million per year. Conservation programs like CRP and WRP help provide the backbone to support the diversity of wildlife that drives this essential sector of our economy. So, when you are weighing how much and which programs to cut in the upcoming farm bill debate, and we all understand that that needs to be done, remember, when you save money from reducing conservation programs, there is a direct cost to the outdoor related sports industry through loss of opportunities and loss of jobs in addition to lessened levels of soil, water, and wildlife conservation on the landscape.

It is our view that even with possible cuts to conservation title programs of up to nearly $6 billion as was outlined by Committee leadership in last falls super committee process, that completing a farm bill now is our top priority.

Sportsmen and sportswomen support a farm bill conservation title that is driven by proven successful programs including the Conservation (CRP) and Wetlands Reserve (WRP) programs, working lands programs including the Environmental Quality Incentives Program (EQIP), the Conservation Stewardship Program (CSP) and others. The Voluntary Public Access Habitat Incentives Program (VPA–HIP) is a relatively new program as part of the 2008 Farm Bill; however, this program has quickly become a top priority program encouraging landowners to allow access to private lands for hunting. Landowners are encouraged to incorporate wildlife friendly management practices and landowners benefit from reduced levels of liability. VPA–HIP supported state access programs like the SD "Open Fields" or Nebraska's CRP-Managed Access Program support strong rural communities as well as our nation's hunting heritage. These are all examples of voluntary incentive-based programs that help our nation's farmer and rancher stewards with projects and practices that improve water quality, reduce soil erosion, and enhance and protect wildlife habitat. All Americans benefit from a strong suite of conservation programs.

Given the likelihood the successful CRP program will be reduced further by several million acres, it's important to continue to target remaining and new CRP lands to maximize benefits. We strongly support continuation of the CRP-State Acres for Wildlife Enhancement (CRP–SAFE) practices that are now in 36 states and more than 900,000 acres. SAFE is an excellent example of CRP in harmony with existing farming and ranching operations. I would caution the Committee, however, that without continued efforts to keep CRP economically competitive and viable, the program will continue to decline in areas of the country like the northern plains. Additionally, we support language encouraging maintaining the soil, water, and wildlife benefits from expired CRP lands that exit the program. Some lands should be transferred to easement programs like WRP and GRP, other lands should become priority enrollment in working lands programs like EQIP and CSP. USDA should be directed to maintain all possible acreages in various CCRP and CREP programs to continue CRP's environmental and wildlife legacy.

We are strong supporters of the successful Wetlands Reserve Program and urge the Committee to provide mandatory baseline funding for a WRP-like program in the 2012 Farm Bill. The Wetlands Reserve Program (WRP) has been instrumental in helping farmers find better uses for those extremely difficult places to farm. WRP has enabled farmers and ranchers to restore vital wetlands on their property, improving water quality and providing vital wildlife habitat for not only waterfowl, but threatened and endangered wildlife as well. Funds from WRP provides a great tool for producers to invest in more and better tillable acres, while deriving many other benefits from their WRP acres.

The Wildlife Habitat Incentives Program (WHIP) has also been a proven successful program. As the Committee debates streamlining and improving efficiencies, consider language supporting waivers for certain participants and state lands that would benefit an agricultural producer.

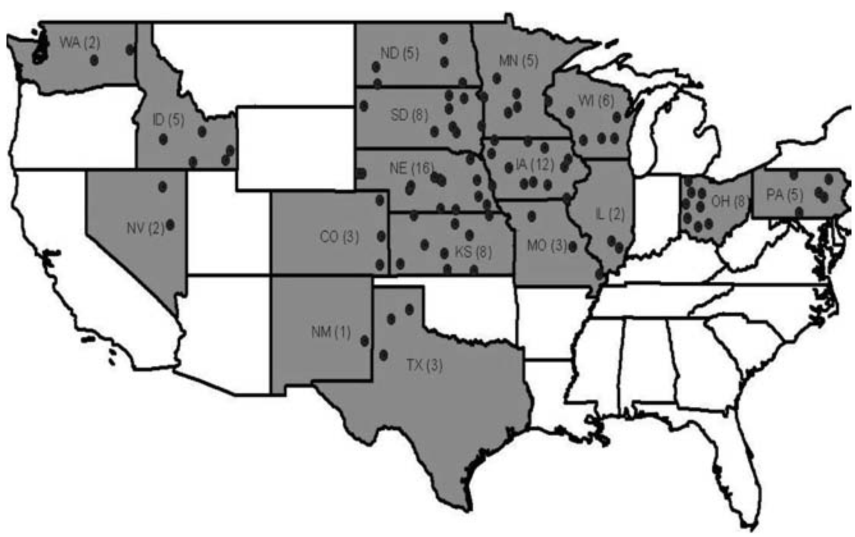
Farmers and ranchers, conservationists and sportsmen, and all citizens have much to gain from successful, sustainable farming that conserves soil, water and wildlife. The regional partnership program developed in the Super Committee report is a great idea that needs to find its way in this next farm bill. Regional partnerships fueled by local diverse interest groups and supported by Federal, state and private funders, are a key to accomplish watershed approaches and solutions that will yield a good farm economy and a healthy sustainable environment. I encourage the House Agricultural Committee to include the Regional Partnership Program in this next farm bill. Following is a current summary of the Pheasants Forever Farm Bill Biologist partnership program:

- Pheasants Forever (PF) and Quail Forever (QF) Farm Bill Biologist (FBB) Program started in South Dakota in 2003 with four positions; there are currently 98 partnership positions in 17 states. Since inception, these biologists have made over 70,000 landowner contacts impacting 2.2 Million acres.
- Funding sources are diverse, and the effort would not be possible without the financial support from State Fish and Wildlife Agencies, USDA–NRCS (contribution agreements or contracts), USFWS, Joint Ventures, Local PF/QF chapters, watershed groups, foundations, and various other state and local partners. FSA is also a key partner.
- With the increasing wildlife focus as part of the farm bill and various state initiatives (*i.e.,* NRCS National Initiatives, State Wildlife Action Plans), FBB's add wildlife technical assistance capacity in USDA offices. They assist NRCS/FSA and other conservation partners maximize the benefits conservation practices provide on a landscape scale.

- Our biologists may become involved in other opportunities such as, expanding private land acres open to the public through the USDA Voluntary Public Access and Habitat Incentive Program (VPA–HIP), we currently host three positions in PA.
- In August 2011, PF entered into an agreement with the Intermountain West Joint Venture, USFWS, and NRCS to assist in the delivering the NRCS Sage Grouse Initiative (SGI). PF will host positions and provide administrative/financial assistance for all SGI positions in 11 states. PF is also assisting with the Lesser Prairie Chicken Initiative with three new positions in TX, and one in NM.

State	Year Implemented	Number of Biologists
South Dakota	2003	8
Nebraska [a]	2004	16
Minnesota	2004	9
Ohio	2005	8
Wisconsin	2007	6
North Dakota	2008	5
Iowa	2009	12
Illinois	2010	2
Kansas	2010	8
Colorado	2010	3
Idaho	2010	5
Pennsylvania	2011	5
Missouri [b]	2005–2008, 2011	3
Washington	2011	2
Nevada	2011	2
Texas	2011	3
New Mexico	2011	1
Total		**98**

[a] Nebraska also implemented a Coordinating Wildlife Biologist Program in 2007 that utilizes different partnerships to coordinate conservation program delivery.
[b] Three year position, 2005–2008 that completed partnership agreement, this became a permanent private lands position within the State Wildlife Agency. Partnership was renewed in 2011 for three new positions.



Mr. Chairman, it is the combination of both programs and policies that is important as the overall funding levels from previous years are decreased. We support continuing policies for sodbuster, swampbuster, and conservation compliance. Conservation compliance provisions can provide reasonable levels of support for soil and water resources and we support tying these provisions to all forms of Federal support including crop insurance. Copied below is a recent letter in support of a strong sodsaver provision to help protect critical native prairie resources. We recognize and appreciate this Committee's past efforts in this area and hope that the 2012 Farm Bill will build upon those efforts and strengthen provisions to help landowners make sound land-use decisions.

Mr. Chairman, that concludes my testimony. Thank you for the opportunity to appear before you today. I'd be happy to answer any questions.

ATTACHMENT

American Fisheries Society * American Fly Fishing Tackle Association * American Sportfishing Association * Archery Trade Association * Association of Fish & Wildlife Agencies * Berkley Conservation Institute * Boone & Crockett Club * Conservation Force * Delta Waterfowl Foundation * Ducks Unlimited Izaak Walton League of America * Mule Deer Foundation * National Shooting Sports Foundation * Orion the Hunter's Institute * Pheasants Forever * Public Lands Foundation * Quail Forever * Quality Deer Management Association * The Nature Conservancy * The Wildlife Society * Theodore Roosevelt Conservation Partnership * Trout Unlimited * Whitetails Unlimited * Wild Sheep Foundation Wildlife Forever * Wildlife Management Institute

April 13, 2012

Hon. DEBBIE STABENOW,
Chairwoman,
Senate Committee on Agriculture, Nutrition, and Forestry
Washington, D.C.;

Hon. PAT ROBERTS,
Ranking Minority Member,
Senate Committee on Agriculture, Nutrition, and Forestry
Washington, D.C.

Dear Senators Stabenow and Roberts:

Our organizations represent millions of hunter and angler conservationists, scientists, and outdoor enthusiasts who are closely following the important debate over the upcoming farm bill reauthorization. We appreciate your bipartisan cooperation last summer in concluding draft farm bill recommendations for the so-called Super Committee, and urge you to continue in that vein to support strong conservation provisions robustly funded, as reauthorization proceeds through regular order. We write you today to respectfully request that you include a strong sodsaver provision in the next farm bill, modeled on the provisions of the Senate floor-passed version of the farm bill passed December 14, 2007, H.R. 2419, the Food and Energy Security Act of 2007.

Farmers have long been some of the nation's foremost conservationists. As you move forward to write a new farm bill, it will be important to include effective economic support programs that will allow farmers to continue farming in uncertain times and ensure that farmland will not be developed for other uses that are incompatible with conservation. At the same time, it will be equally important to link those support programs to basic, sensible conservation provisions, such as sodsaver, to encourage responsible stewardship of agricultural land and direct program benefits to acreage that is most suited for crop production. With budget pressure on existing USDA conservation programs increasing, linking basic farm support programs to reasonable conservation requirements makes sense.

In conclusion, we strongly believe it is vital that the farm bill include effective economic support programs and that those programs be coupled with a strong sodsaver provision. Doing so will promote continued excellent stewardship of America's farmlands and foster production of crops, clean water and abundant populations of fish and wildlife. Thank you for your sincere consideration of our request, and we look forward to working with you in the coming months to achieve that goal.

The CHAIRMAN. Thank you, sir. I now recognize for 5 minutes Mr.—is it Niemeyer?

Mr. NIEMEYER. That is correct.

The CHAIRMAN. Mr. Niemeyer. It is good to see you again. I think I saw you last in Springfield, Illinois——

Mr. NIEMEYER. Absolutely.

The CHAIRMAN.—at a Subcommittee hearing there. So go ahead, sir.

STATEMENT OF GARRY NIEMEYER, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, AUBURN, IL

Mr. NIEMEYER. Chairman Thompson, Ranking Member Holden, and Members of the House Agriculture Subcommittee on Conservation, Energy, and Forestry, I appreciate the opportunity to testify before you today on behalf of the National Corn Growers Association regarding farm bill conservation programs. My name is Garry Niemeyer. I currently serve as President of NCGA. My wife Cheryl and I have been farming in Auburn, Illinois, for the past 41 years, where we raise corn and soybeans. I am also pleased to report that my testimony today has the full support of American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, National Cotton Council, National Farmers Union, and USA Rice Federation. This broad consensus amongst farms groups is a significant achievement and is the result of nearly a year of discussions about how to structure conservation programs that deliver environmental benefits, while also improving productivity and reducing costs on the farm.

In light of the difficult fiscal and economic conditions that our nation faces today, our groups recognize the monumental task before this Committee to advance a new farm bill that addresses a broad range of nutrition and agriculture concerns across the country. Our growers also understand that they must be part of the solution to address our nation's budget deficits and are prepared to accept spending reductions in farm programs. However, the size and scope of these cuts must not jeopardize important program functions. We believe there are opportunities in the conservation title to consolidate or eliminate redundant programs in order to achieve savings, while also working more effectively for producers.

Our organizations have expressed support for the Title II framework in the 2012 Farm Bill that the Senate and House Agriculture Committees began developing last fall. This consolidates 23 conservation programs into 13, while maintaining the same tools that were available to farmers in the past. Our growers are seeking simplification, flexibility, and consolidation in these programs, and we believe these goals are achieved in the Senate Agriculture Committee's recent draft language. As regulatory pressures on producers continue to increase, working lands programs have become essential to achieving environmental goals. The Environmental Quality Incentives Program delivers conservation dollars to assist landowners who face natural resources challenges on their land. We support the continuation of a 60 percent carve out for livestock producers and for the proposal to consolidate the Wildlife Habitat Incentives Program into EQIP with a five percent funding allocation.

The Conservation Stewardship Program was modified and expanded in the 2008 Farm Bill, which has allowed a greater number of producers to participate in recent years. CSP prioritizes more complex management efforts by offering higher payments. NRCS should be given greater flexibility in determining the potential outcome of these practices for farmers wishing to enroll.

The Conservation Reserve Program is the largest and one of the most important USDA conservation programs, providing many benefits, including wildlife habitat, water quality improvements, and outdoor recreation. Considering current budget constraints, our groups have been supportive of gradually decreasing the CRP cap to 25 million acres to achieve savings from Title II. However, environmentally sensitive or fragile lands should be the program's priority, with the focus on targeted enrollment and re-enrollment of field borders and filters and buffer strips. As acreage leaves CRP, we believe it is important that sound conservation practices be adopted for those acres with an opportunity for landowners to enroll them in the Working Lands Program. We also support conservation cost-share work to be undertaken in the final year of the CRP contract, as well as more flexibility on haying and grazing options.

Farmers are exceptional stewards of the environment. Our livelihoods depend on preserving land and water resources. Voluntary conservation programs developed over the past 30 years help farmers and ranchers play a major role in improving our environment, while also expanding their sources of income and keeping them on the land. We hope this Committee will choose to continue to invest in these programs through a robust and efficient conservation title in the new farm bill.

Thank you for the opportunity to testify today on behalf of NCGA and a number of other agriculture organizations, and we hope—are hopeful that Congress can act swiftly to pass the farm bill before the end of 2012. Thank you.

[The prepared statement of Mr. Niemeyer follows:]

PREPARED STATEMENT OF GARRY NIEMEYER, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, AUBURN, IL

Chairman Thompson, Ranking Member Holden and Members of the House Agriculture Subcommittee on Conservation, Energy, and Forestry, I appreciate the opportunity to testify before you today on behalf of the National Corn Growers Association (NCGA) regarding farm bill conservation programs. My name is Garry Niemeyer, and I currently serve as President of NCGA. My wife Cheryl and I have been farming in Auburn, Illinois for the past 41 years where we raise corn and soybeans.

The National Corn Growers Association represents more than 37,000 corn farmers from 48 states. NCGA also represents more than 300,000 corn growers who contribute to check off programs and 27 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers.

I am also pleased to report that my testimony today has the full support of the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, National Cotton Council, National Farmers Union, and USA Rice Federation. This broad consensus amongst farm groups is a significant achievement and is the result of nearly a year of detailed discussions about how to structure conservation programs that deliver environmental benefits while also improving productivity and reducing costs on the farm.

As this Committee and the Congress consider legislation to authorize a new farm bill, American farmers are preparing to take on an even greater role in meeting the growing demands of world consumers. The harsh reality is that billions of people in the world today remain hungry and the numbers are rising, a trend the Food and Agriculture Organization (FAO) of the United Nations reports will continue for another 30 years. The FAO says this translates into needing to increase agricultural production by 70 percent over this period. Others place it at 100 percent. Many people cite these figures and discuss how important it is that we reach these goals, although very few are taking a critical and comprehensive look at our policy decisions today in light of this objective. However, we are confident that with the right mix of policies, U.S. agriculture will help the world to meet these growing demands in a sustainable way, while at the same time remaining a bright spot in our nation's economy and contributing to its recovery.

Our confidence comes from agriculture's ability, led by advances here in the U.S., to generate and adopt technological innovations that increase productivity and efficiency. Seed technologies, for example, along with modern production and conservation practices have allowed us to use far fewer resources while substantially increasing productivity. We have become more sustainable, even while we help meet the pressing need for an expanding food supply. In fact, the average bushels per acre of corn increased from 114 in 1995 to 153 in 2010, a productivity increase greater than 30 percent. These remarkable numbers and the promise of new production technologies on the horizon translate into U.S. farmers' ability to meet all our needs for food, feed, fuel and fiber.

It is important to acknowledge that farm bill conservation programs have had significant positive impacts over the past several decades, which have led to lasting environmental improvements on agricultural lands. The Field to Market initiative's 2009 report *Environmental Resource Indicators for Measuring Outcomes of On-Farm Agricultural Production in the United States* shows positive trends for all major commodities in the U.S. A combination of technology adoption, improved management practices, and voluntary conservation programs have resulted in dramatic conservation benefits in U.S. corn production. Over a 20 year period from 1987–2007, soil erosion per bushel of corn decreased 69 percent, energy use per bushel of corn decreased 37 percent, irrigation water per bushel of corn decreased 27 percent, greenhouse gas emissions per bushel of corn decreased 30 percent, and land use per bushel of corn decreased 37 percent.

In light of the extremely difficult fiscal and economic conditions that our nation faces today, our groups recognize the monumental task before this Committee to advance a new farm bill that addresses a broad range of nutrition and agriculture concerns across the country. Our growers also understand they must be part of the solution to address our nation's budget deficits and are prepared to accept spending reductions in farm programs. However, the size and scope of these cuts must not jeopardize important program functions. Fortunately, we believe there are opportunities in the conservation title to consolidate or eliminate duplicative programs in order to achieve savings, while also working more effectively for producers.

NCGA and the aforementioned agricultural organizations have expressed support for the Title II framework in the 2012 Farm Bill that the Senate and House Agriculture Committees began developing last fall, which consolidates 23 conservation programs into 13 while maintaining the same tools that were available to farmers in the past. Our growers are seeking simplification, flexibility, and consolidation in these programs, and we believe these goals are achieved in the Senate Agriculture Committee's recent draft language.

As regulatory pressures on agricultural producers continue to increase, working lands programs have become essential to achieving environmental goals. The Environmental Quality Incentive Program (EQIP) remains a popular program that delivers effective conservation dollars to assist landowners who face natural resource challenges on their land. Between 2009 and 2011, EQIP helped farmers and ranchers implement conservation measures on more than 38 million acres. Above all, EQIP should preserve the full flexibility needed to adjust the program over time to focus on evolving issues and allow improvements to program features based on national, state and local needs. We support the continuation of a 60 percent carve-out for livestock producers, as well as the proposal to consolidate the Wildlife Habitat Incentive Program (WHIP) into EQIP with a five percent funding allocation.

The Conservation Stewardship Program (CSP) was modified and expanded in the 2008 Farm Bill, which has allowed a greater number of producers to participate in recent years. It is now one of the largest USDA conservation programs, with nearly 38 million acres enrolled from 2009–2011. CSP prioritizes more complex management efforts, such as advanced nutrient management, by offering higher payments. The Natural Resources Conservation Service (NRCS) should be given greater flexibility in determining the potential outcome of these practices for farmers wishing to enroll in the program.

We support the creation of a consolidated easement program to encompass the Wetlands Reserve Program (WRP), Grasslands Reserve Program (GRP), and Farm and Ranch Lands Protection Program (FRPP). The proposed changes would establish a more secure, longer term funding source for these important programs rather than authorizing for the duration of only one farm bill at a time.

The Conservation Reserve Program (CRP) is the largest and one of the most important USDA conservation programs, providing many benefits including wildlife habitat, water quality improvements, and outdoor recreation. Considering current budget constraints, our groups have been supportive of gradually decreasing the

CRP cap to 25 million acres to achieve savings from Title II. However, environmentally sensitive or fragile lands should be the program's priority, with the focus on targeted enrollment and reenrollment of field borders and filter and buffer strips. As acreage leaves the CRP, we believe it is important that sound conservation practices be adopted for those exiting acres with an opportunity for landowners to enroll them in working lands programs. We also support conservation cost-share work to be undertaken in the final year of a CRP contract, as well as more flexibility for haying and grazing options on CRP land.

Our groups support the creation of a Regional Conservation Partnership Program by consolidating the Agricultural Water Enhancement Program (AWEP), Cooperative Conservation Partnership Initiative (CCPI), Chesapeake Bay Watershed Initiative (CBWI), and Great Lakes Restoration Initiative (GLRI). This will allow USDA to leverage state, local, and non-governmental organization funds to address targeted conservation priorities.

The demand for technical assistance continues to increase, yet funding for technical assistance has been relatively flat over the years. We recommend that Congress provides adequate funding and training for NRCS field staff to help address on-farm conservation challenges. We encourage the Committee to look at a long-term view of budgeting for technical assistance that balances national priorities with local needs. In addition, the consolidation of programs should result in the streamlining of the application processes to minimize paperwork and ease implementation.

In certain regions of the country, weather patterns in recent years have resulted in excess water and an increased desire to install drainage management on fields. Farmers have requested certified wetlands determinations from NRCS at a record pace, and currently, there is a backlog of 13,000 requests over four states (North Dakota, South Dakota, Minnesota, and Iowa). NRCS is working to accelerate the process while also bringing more consistency to how the determinations are made and ensuring mitigation options. Congress should provide resources to ensure the backlog is dealt with as expeditiously as possible.

One of the most important steps USDA took in the past decade was the establishment of the Conservation Effects Assessment Program (CEAP) in 2003 to develop a scientific understanding and method for estimating the environmental effects of conservation practices on agricultural landscapes at national, regional, and watershed scales. In the past 2 years, CEAP assessments have been completed for the Upper Mississippi River Basin, Chesapeake Bay Region, Great Lakes Region, and Ohio-Tennessee Basin. Using the survey work conducted by the National Agricultural Statistics Service (NASS), CEAP is a highly efficient and cost effective way to demonstrate the outcomes of the conservation practices used by farmers and ranchers. CEAP also enhances NRCS's ability to ensure that farmers and ranchers are focusing on top resource challenges. Without the NASS-supplied survey data, CEAP would not be able to provide its statistically valid and science-based estimates of agriculture's conservation accomplishments and the associated benefits for natural resources and the environment. This Committee should ensure that CEAP and the underlying NASS survey collection receives continued funding into the future.

Farmers are exceptional stewards of the environment because our livelihoods depend on preserving land and water resources. We are committed to leaving our environment in better shape than we found it so resources can be passed on to the next generation to farm. Most producers throughout America view protecting agricultural land as more than a worthwhile goal. It is a lifelong commitment. Voluntary conservation programs developed over the past 30 years help farmers and ranchers play a major role in improving our environment while also expanding their sources of income and keeping them on the land. We hope this Committee will choose to continue to invest in these programs through a robust and efficient conservation title in the new farm bill.

Thank you for the opportunity to testify today on behalf of NCGA and a number of other agricultural organizations. We are hopeful that Congress can act swiftly in the coming weeks and months to pass the farm bill before the end of 2012.

ATTACHMENT

April 20, 2012

Hon. DEBBIE STABENOW,
Chairwoman,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.

Dear Sen. Stabenow:

Farmers are exceptional stewards of their land and water resources. They have to be. Their livelihood depends on preserving those resources. Even more important for most producers is a desire to conserve so that the resource can be passed on to the next generation to farm. Most farmers throughout America view protecting agricultural land as more than a worthwhile goal. It is a lifelong commitment. These farmers not only lead by example on their own farms, but they actively work to promote land stewardship elsewhere. Voluntary conservation programs developed over the past 30 years help farmers and ranchers play a major role in improving our environment while also expanding their sources of income and keeping them on their land.

The undersigned groups urge you to oppose attaching conservation compliance provisions to the crop insurance program. We fear this would cause numerous unintended consequences, including the potential loss of financing from our lenders, an undermining of the public-private partnership between the Federal Government and crop insurance companies, and a potentially unbalanced approach to a new mandate (depending on whether such a program covers only program crop commodities or is also applied to specialty crops).

The 1985 Farm Bill included two compliance provisions—highly erodible land conservation (sodbuster) and wetland conservation (swampbuster). The two provisions, collectively referred to as conservation compliance, require that in exchange for certain U.S. Department of Agriculture (USDA) program benefits, a producer agrees to maintain a minimum level of conservation on highly erodible land and not to convert wetlands to crop production.

Conservation compliance affects most USDA benefits administered by the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS). These benefits include commodity support payments, disaster payments, farm loans and conservation program payments. If a producer is found to be in violation of conservation compliance, a number of penalties are enforced.

Some groups and individuals believe that crop insurance should be added to the list of benefits that could be lost if a producer is found to be out of compliance. Federal crop insurance premium assistance was originally included as a benefit that could be denied under the conservation compliance provisions; however, this was removed in the 1996 Farm Bill. This was due largely to the fact that Congress wanted to encourage producers to purchase crop insurance and to do so at higher levels of buy-up coverage so that *ad hoc* disaster assistance became unnecessary.

Since elimination of direct payments appears inevitable and high commodity prices have resulted in few or no countercyclical payments or marketing loans, some are concerned there is no motivation for producer compliance with conservation requirements. Such groups fail to recognize that producers are the original conservationists and they want to take care of their land. It will also still be required for commodity support payments, disaster payments, farm loans and other conservation benefits. Farm groups are willing to attach conservation compliance to any new commodity programs encompassed in this farm bill, but such linkage should not be required for crop insurance.

It is critical to maintain a workable crop insurance program. Without it, many producers could not secure financing. In addition, if there was a severe weather occurrence and producers became out of compliance, serious issues could arise in their ability to secure financing.

We believe it unwise to make any changes in this farm bill that would dissuade producers from purchasing crop insurance. With elimination of direct payments, crop insurance is an absolute necessity for producers. If we do not have a workable crop insurance program and a high level of participation in that program, we will invariably fall back into the cycle of annual *ad hoc* disaster assistance programs.

It is also important to remember that implementing a crop insurance/conservation compliance provision would not be simple, nor are the details of such a proposal yet fleshed out. Who will enforce these compliance provisions? With the FSA furloughing staff and planning to close 130 offices, is there sufficient personnel? Will compliance provisions be applied to owners of land or operators? Will specialty crops be included under such a mandate or simply applied to program crop commodities?

We appreciate your consideration of our views and urge you to reject the linkage of crop insurance with conservation compliance requirements.

Sincerely,

American Association of Crop Insurers
American Farm Bureau Federation
American Soybean Association
American Sugar Alliance

ARMtech Insurance Services, Inc.
CGB Diversified Services
Crop Insurance and Reinsurance Bureau
Crop Insurance Professionals Association
COUNTRY Mutual Insurance Company
Farm Credit Council
Farmers Mutual Hail Insurance Company of Iowa
Great American Insurance Company
Heartland Crop Insurance, Inc.
Independent Community Bankers of America
John Deere Insurance Company
NAU Country Insurance Company
National Association of Wheat Growers
National Barley Growers Association
National Corn Growers Association
National Council of Farmer Cooperatives
National Sorghum Producers
National Sunflower Association
Producers Ag Insurance Group, Inc.
Rain and Hail, LLC
Rural Community Insurance Services
Southwest Council of Agribusiness
United Fresh Produce Association
U.S. Canola Association
USA Dry Pea & Lentil Council
Western Growers
Western Peanut Growers Association

The CHAIRMAN. Thank you, Mr. Niemeyer. Thank you to all the witnesses for your testimony.

The chair would like to remind Members that they will be recognized for questioning in order of seniority from Members who were here at the start of the hearing, and after that, Members will be recognized in order of arrival. I appreciate Members understanding. I will proceed with the first 5 minutes of questions.

I will start with Mr. Schmidt. Mr. Schmidt, you mentioned in your testimony the importance of technical assistance in administering conservation programs, and in fact, I couldn't agree more. I think that is boots on the ground. Technical assistance is incredibly important. In my opinion, the 2008 Farm Bill put more emphasis on administrative activities and programs opposed to technical assistance and boots on the ground. So I will start with you, sir. Would you agree with this, and if so, how should we address this?

Mr. SCHMIDT. Thank you, Chairman Thompson, and that is so critical. As Mr. Peterson spoke, we have dollars in agriculture and we hope that atmosphere continues. We don't always know that, but usually when there are dollars in agriculture, there are individuals—producers looking for things to do the right way. And that technical assistance, we know there are dollars are—those kinds of things happening. We want to make sure that those folks have the expertise to do whatever conservation practice that they have in mind is done the right way. Technical assistance is looked upon so strongly from that initiative to help those folks who want to do the right thing, how do they spend that money most wisely, most efficiently, and we get the best impact of that conservation practice.

So that is why that TA is so important, that technical assistance is so important, to help those producers, landowners try to do the right thing with the right technical ability in their local communities.

The CHAIRMAN. Thank you, sir.

Mr. Niemeyer, you stated that the demand for technical assistance continues to increase, yet funding has remained flat. Why specifically do you believe that has been the trend, and what are your thoughts on the issue?

Mr. NIEMEYER. Congressman, one of the things that I have in my testimony is CEAP, Conservation Effects Assessment Program, and this is where NRCS does assessments. We think that they estimate the environmental benefits very effectively. We feel that CEAP has been particularly important in the Chesapeake Bay watershed and the Upper Mississippi River Basin to demonstrate how farmers are doing conservation to the land.

As farmers face regulatory scrutiny, USDA needs a tool to demonstrate where progress has been achieved and where challenges still exist. It is always best to build on programs around sound science and data so we can better understand where to target future resources.

The CHAIRMAN. Thank you.

Mr. Scholl, you state in your testimony that in the Chesapeake Bay, 80 percent of the lands need treatment, and 19 percent are critically under-treated. How can we help encourage more farmers to enroll in these programs, especially the most critically under-treated?

Mr. SCHOLL. Well, there are a number of things we can do. One, a lot of the work that you are trying to do with this Subcommittee that we have seen in some of the proposals certainly help in terms of making sure that the programs we have are understandable, they are easily accessible, and relevant to the local needs of a local area, trying to direct more program resources to opportunities where local people have an opportunity to be able to develop partnerships and put forward plans and ideas in terms of how they can effectively deal with their local resource concerns are very important. And of course there are going to be a number of issues or number of opportunities as we see this bill continue to progress, to make sure that there is adequate funding that can be strategically placed in areas where we know we have significant challenges, and clearly, the Chesapeake Bay is one. It also can be very helpful in making sure the farmers, the producers have the tools they need to be making the progress we want them to make.

The CHAIRMAN. Thank you. Mr. Scholl, you made it clear that you believe that strategic conservation is a cornerstone in the next farm bill. I want to get your opinion. Today the Senate is marking up—and obviously it sounds like you have looked at that. Do you believe that the Senate draft accomplishes this goal?

Mr. SCHOLL. Yes, we do feel that it is a big step forward in terms of making sure that the limited dollars we have available will be put to strategic use. A number of the points that I have raised in terms of developing local partnerships, being able to target to local resource concerns, and frankly, be able to compete for dollars to incentivize people to put their best foot forward clearly is an approach that we think can be successful. We have seen things like through the Cooperative Conservation Partnership Initiative in the last farm bill, that that kind of approach works and we think it does probably hold the best promise in terms of making sure the limited dollars we have available are going to get to the areas where the greatest needs are.

The CHAIRMAN. Thank you. At the request of the Ranking Member, I recognize Mr. Costa next, for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman, and the Ranking Member. I have another committee going on concurrently and I need to get over there, but I do want to touch upon the conservation title and its impact, because we have done a lot of good work as a result of the 2008 Farm Bill that we all worked on together that had terrific bipartisan support. It was the only bill in that session of Congress that passed both Houses, regular order, went through a Conference Committee, due to the good leadership of Congressman Peterson and Goodlatte, and hopefully we can repeat that.

Mr. O'Toole, you talked in your testimony about government should be allowed to voluntary assume primacy on the conservation title by using block grants to states, I believe. Please walk me through how that would happen, and where would the oversight be?

Mr. O'TOOLE. Well, our personal experience is that the programs as they are designed right now, Idaho and Wyoming and Colorado particularly, there is money turned back because it is not an appropriate program for the state. There isn't enough sign up, and it is our feeling that those decisions are much better made at local—at a local level and at a state level. Interestingly in Colorado and Wyoming, both states have different matching capabilities. In Wyoming it is a wildlife trust fund, and in Colorado it is——

Mr. COSTA. Who would do the oversight of the block grants?

Mr. O'TOOLE. Who would do the oversight? I think that there is a Federal role, but our family has done conservation easements in both Colorado and Wyoming. There was an——

Mr. COSTA. Would this create more work for NRCS or FSA?

Mr. O'TOOLE. Pardon?

Mr. COSTA. Would this create more work for NRCS or FSA?

Mr. O'TOOLE. It is our perspective that it will create less and it will be much more efficient by being more local. We have had oversight, as I said, on the FRPP from D.C. and we found that that process was not as effective as what was happening locally with the various programs that occur within the states.

Mr. COSTA. Mr. Nomsen, the EQIP program has been one of the real highlights of the 2008 Farm Bill across the country, and certainly in a host of efforts to conserve and focus on both water and air resources efforts. It has been very successful in the agricultural region in the Silicon Valley.

The focus on the Senate draft, I believe, incorporates, I have been told, the Wildlife Habitat Incentives Program into EQIP under wildlife habitat practices. I am wondering whether or not you think that is an appropriate way to dovetail that in and make it work. Frankly, our experience is probably true across the country. It is oversubscribed and if we get a farm bill out this year, we have to figure out ways to provide greater support for it. Could you comment?

Mr. NOMSEN. Thank you, Congressman. The EQIP program is a tremendous program to help farmers and ranchers with working lands, and I am very supportive of adding the element from the WHIP program so we have wildlife incentive practices within EQIP at at least five percent. You know, it is just a tremendous program and we can do much more with it.

The current NRCS Sage Grouse Initiative is helping us put range conservationists on the ground in many of the western states, and it becomes a real win-win for ranchers and for wildlife. The ranchers are benefitting from improved range conditions, brush removal, prescribed burning, and some of those efforts that can provide better range land for their operations, and at the same time we are doing great things for the sage grouse. It is a tremendous success story.

Mr. COSTA. If you were ranking in terms of priorities within the various titles within the farm bill, and you had your druthers, what would you like to see in terms of us focusing—in terms of the current funding that we have provided for EQIP program? Would you like to see us increase it or what changes would you offer?

Mr. NOMSEN. Well, I would just offer that as difficult as the discussions have been, I am very pleased that they have been bipartisan on both sides. I mean, it has been a very difficult job to talk about removing $6 billion from conservation. If we didn't have to do that, it would be better, but I do think that some of the policies across many of this suite of programs will be beneficial into the future.

Mr. COSTA. All right. Thank you very much, Mr. Chairman. I thank the Ranking Member for your deference, and I will get to my next committee.

The CHAIRMAN. I thank the gentleman, and I now recognize the gentleman from Ohio, Mr. Gibbs, for 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman. First of all, I would like to say the EQIP program has been a great program and a lot of producers, including myself in the past, have taken advantage of it.

I want to try to get a little handle—we talk about what Mr. Peterson was talking about, the land that has been set aside, and of course, back in the 1980s we actually had what, ten percent set aside in addition to this CRP ground because of the—what was happening with the surpluses of grain. But I would like to—maybe Mr. Schmidt might be the best one to answer this. The 32 million acres now capping at 25 million acres, does anybody really have a handle on—since we have to cut $6 billion, does anybody really have a handle of how many acres should absolutely be protected. Also, how many acres could be—should never be tilled but maybe should still be protected but could be pastured. Where are we? I am just trying to get a handle of what you think the acreage might be, or maybe it is 25 million acres. I don't know, I am just—I don't know. Mr. Schmidt might be the best one to——

Mr. SCHMIDT. Thank you, Congressman, and we have taken a look at that aspect and in respect to Congressman Peterson's remarks earlier on, one of the biggest concerns we had in the acres coming out of CRP that we know back in the 1985 Farm Bill that we had somewhat of a production reduction part of that aspect. The acres that have come back out of the CRP, our concern is that we know under some full block acreages that went into CRP, there is probably some sensitive lands within those blocks. We look at that acreage cutback to the 25 million acres, we want to make sure that those sensitive lands are protected by some kind of a conservation practice. We know there are productive lands out there that are probably in a Conservation Reserve Program that probably need to be back in production, but we also realize that within that block, there are probably sensitive lands. We want to make sure that we maintain through a conservation plan or some mechanism that we maintain the sensitivity from the water quality aspect, the conservation aspect. Bringing some of those CRP acres back in probably today is a little bit less of a concern because of the cover crop activity you are seeing take over in the industry.

You know, I was taught as a youngster that the best way to maintain soil health is have a live crop on a piece of land at all times. That is where the cover crop aspect comes in. So there are technologies that have changed, a lot of new expertise in agriculture today that we didn't have back in 1985 that turn a tremendous aspect. But we see a pretty good balance, given, when you talk wildlife, the wildlife habitat, those kind of things. There are a lot of new conservation practices that help us maintain the sensitivity of those lands under the CRP acreage total that we think we can maintain a true environmental benefit, even if we have to look at that 25 million.

Mr. GIBBS. Okay, and I guess that goes a little bit back to Mr. Nomsen from Pheasants Forever. You made a comment about wildlife habitat, not the blocks. Did you want to expound a little bit further on that? If we have to actually cut some of those blocks up, the impact or can we actually do it and maybe pasture some of those non-sensitive areas and still protect water quality and——

Mr. NOMSEN. Congressman, that is a good point. You know, one of the challenges that we have had is as we have talked about reducing the overall size of the CRP is to make the program a much more dynamic program and move acres through this program. Let us help beginning farmers and ranchers with expired CRP lands that have improved plans by leaving buffers in place and moving into farming operations. Let us help grazing operations do the same thing. Let us take some of the sensitive lands and move them into more permanent and long-term easement protection, and let us be more aggressive about expiring CRP and buffers, leaving the buffers in place. Too much of the CRP is leaving right now and it is ending up fence row to fence row, ditch to ditch production, and that is just going to cause more soil erosion and water quality problems.

So those are the types of policies that we are looking for in the next farm bill that will help with the potential reduction of the overall size of the program.

Mr. GIBBS. Is that—going back to Mr. O'Toole, flexibility, that is what you were really asking for, the ability for the locals to—and the farmers, the stakeholders to be able to look at that and make some of those determinations, give them that flexibility when they have to decide what is sensitive and what can maybe be pasture and protected?

Mr. O'TOOLE. Yes, sir, and I was part of a group—Congressionally mandated group that looked at the conservation part of the farm bill hearings last year. I attended hearings in Phoenix, Portland, and Ft. Collins, Colorado, and it was a very consistent message. We need to get people out of the offices and onto the ground. We need to make the system work faster. If we, in fact, are going to have the driest and then the wettest year behind each other, we have to be flexible enough to be able to adjust to whatever those realities are. If there is one message, it is that things are changing for a lot of different reasons, a lot of market changes, a lot of climatic realities that we are all dealing with, and I think that the role of NRCS—and I will just tell you personally, it is so frustrating to have good men in an office doing administrative work when they need to be on the ground.

Mr. GIBBS. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I now recognize the gentleman from Oregon, Mr. Schrader, for 5 minutes of questioning.

Mr. SCHRADER. Thank you very much, Mr. Chairman.

I am very interested in Mr. O'Toole's ending comments there. I guess a question for each of the panelists, I would be interested in your perspective on how you judge the outcomes of the various programs that are out there. How do we as legislators, not experts in wildlife biology or soil erosion or in some cases, perhaps, some of us not being farmers—I am a farmer—but how do you—how are we to judge whether or not a particular CRP, CSP, EQIP easement program is actually working? What sort of data, actual data is collected by NRCS or whoever? Who are the boots on the ground actually collecting data out there? Mr. Schmidt, we start with you.

Mr. SCHMIDT. Well thank you, Congressman. Just a little bit of that background—and I appreciate it. Accountability is so important, and as we experienced in a private project within NRCS and the Chesapeake Bay, we went out and did some one-on-one research with agriculture, making sure—the background right now and the model data we have is based on conservation practices. Somebody took some kind of monetary—a cost-share program, whatever, from that scenario. We know there is conservation on the land that would have been done voluntarily. You know, I am, as you said, a farmer. I am driving down the road, I look at my neighbor. It looks like he is doing a good job. Sometimes I just copy him. I didn't go for cost-share. Sometimes we don't have enough boots on the ground to get that job done.

We want to make sure and we did that. We found that at the Chesapeake Bay there was roughly about 30 percent more conservation on the land than what is actually being accounted for in the model data we had. So some mechanism—through a conservation plan, some mechanism to truly get accountability of the actual conservation plans out there so we can address the needs as we see them, the flexibility to address that, but we truly need some mechanism to account for more of that conservation so we do have a mechanism, as you said, to measure truly what is out there and the benefits of the programs that you all provide and fund to help us maintain.

Mr. SCHOLL. I am sure there are a lot of folks with a lot of degrees behind their name that would be very good at answering that question. I don't pretend to be able to give you a lot of specific details in terms of how you select the appropriate outcomes and exactly what those outcomes should be, but I do certainly concur with the intent of your question to say they are critically important. One of the things I would encourage this Committee to look at is efforts like the CEAP program that USDA has that I think really is making steps forward in terms of trying to identify what are the benefits in real concrete terms that we get from the investment we make in EQIP and all these other programs. Outcomes are in important, particularly in a day and age when the public is very concerned about accountability, and we want to make sure that dollars are being used effectively. It is great to know how many miles of terraces we have put in, but at the end of the day, we really need to know, did it have the desired impact on water quality or wildlife habitat or whatever the issue we are looking at.

And so I would encourage you to especially look at those means that we can help empower those experts to be able to help us better understand those outcomes, what we are getting from the investment we are making, and if we are making progress towards that mark.

Mr. O'TOOLE. If I were not here today I would be in Klamath Falls in a meeting of a group called the Intermountain Joint Venture, which is about migratory birds. You know, what I talked about earlier, these Islands of Renaissance that are happening all over, it is because coalitions of people are coming together. We are working with Family Farm Alliance, with Environmental Defense Fund, Nature Conservancy, Trout Unlimited, as well as Wyoming Stock Growers Association, Farm Bureau groups.

In reference to how we understand how this balance of conservation and production happen, here is a number that really struck me. The largest duck count since 1955 is now, and one of the things that we are understanding from the conservation side is the value of flight irrigation in terms of habitat for migratory birds. We at NRCS and many people in agriculture were being asked to do more efficiency, more efficiency, more side rules, more pivots. That is good to a point, but the reality is when you look at a watershed, a watershed is a sponge that has all kinds of various benefits, and to understand the balance of those benefits for birds and wildlife and production is the future. And I would just tell you that the criteria are because we are now partnering with people that we were maybe considered adversaries a few years ago. We now have a new look on how you do the critical parts of production and maintain those other values.

Mr. NOMSEN. Congressman, each fall I try and personally measure the success of these conservation programs afield, and I measure it by the number of birds in the bag. But maybe to build on that a little bit, if you look, for example, at upland bird hunting, it is a billion-dollar industry in this country. Pheasant hunting in the State of South Dakota is averaged just short of a $¼ billion each year. That is a tremendous economic driver for that small, rural state and a lot of those rural economies. Motels are full, restaurants are full. Conservation programs are a tremendous part of our hunting heritage and our rural economy.

Mr. NIEMEYER. Congressman, I have already spoke on the effects of CEAP, and I think that is the way you determine on sound science and data. However, I want to go back to something in a different format.

You know, these voluntary programs do work. We have worked with Field to Market on a report—in a report that came out in 2009. From 1987 to 2007, we found evidence of continuing environmental improvements for corn production over the past several years, and it has a lot to do with conservation programs. Soil erosion per bushel of corn decreased 69 percent in those 20 years. Energy use per bushel of corn decreased 37 percent in those 20 years. Irrigation use per bushel of corn decreased 27 percent. Greenhouse gas emissions per bushel of corn decreased 37 percent. We do have data to prove that all these policies that we work with on a voluntary method have worked very proactively.

Mr. SCHRADER. Just a final comment, Mr. Chairman. I know my time has expired, but I just want to make it clear to the Committee and to everyone out there, and hopefully to the—of our next farm bill, that with limited dollars, it would really be smart of us to use CEAP or some other program to decide which of these programs is giving the biggest bang for the buck. I know we all have favorites, but we cannot afford to do everything all the time anymore, so we have to really figure out which programs are giving us the biggest bang for the buck.

Thank you.

The CHAIRMAN. I thank the gentleman. I now recognize Mr. Ribble of Wisconsin, for 5 minutes of questioning.

Mr. RIBBLE. Thank you, Mr. Chairman. I want to thank the panel for taking some time with us this morning. Actually, we will start and see how this goes time-wise with asking you all to respond to this question.

Earlier in the year I had a town hall with about 130 farmers and landowners in Wisconsin. We talked specifically about the farm bill, including the area of conservation. I am wondering if each of you would tell me, what is the number one guiding principle that this panel ought to be following as we draft the farm bill? And then what is your number one priority? Mr. Schmidt, we will start with you.

Mr. SCHMIDT. Thank you, Congressman. I think going back to an earlier statement, probably the number one—when we look at limited dollars and how do we get the most impact for the dollars we have available, it is the flexibility that you folks can look at in a program process that gives us that ability at the local level to maximize either by matching funds, whatever, the flexibility to utilize those dollars. I think above all, even though we have a shrinking budget and the streamline aspect to me is a priority. How do we make it more efficient and easier for those farmers or producers to participate in, but more importantly, when you have some voluntary—and normally you do. People want to do the right thing. We don't always provide the ability for those folks to do the right thing, so that technical assistance aspect of helping those folks make the right choice, right decision with the dollars that are out there, whether it is Federal dollars or local dollars, to get the best impact of those dollars that are out there. I think that is key. That is a priority.

Mr. RIBBLE. Thank you.

Mr. SCHOLL. Number one principle, I would say engagement of producers. I do very strongly believe that it is in our own best interest as farmers to do the right thing by our natural resource protection. I know the public is demanding that. I think there is a lot of desire on the part of farmers to want to apply the kind of practices and the like. Oftentimes we are dealing with complex issues and the technical assistance and the like is very important. But really trying to engage people and have the tools and resources available is probably the number one principle I would offer.

The number one priority, clearly, from my organization's standpoint I would say maintaining and building a viable Farm and Ranchland Protection Program. I cited statistics in terms of the amount of land we have lost, and one of the points I would make is that it is some of our best land that we have lost. And when you look at the growing demands and the pressures upon that land resource, there are many instances where we regret that we have lost that land and that is even going to become more acute into the future. So making sure we keep a viable program to help protect land and keep it in agricultural production would be our number one priority.

Mr. RIBBLE. Thank you.

Mr. O'TOOLE. Sir, a few years ago I had the opportunity to spend an afternoon with Wendell Barry, and he is a fellow that has written significant books on agriculture and farming. And he said something to me that really stuck, and it is that if you love the land, you have a responsibility to it. And in the context of this hearing and this question and the issue of conservation, farmers have to realize that just as much as when we as a country said we want you to produce fuel as well as food, we have to send the message out that conservation is an integral part of food production.

My primary concern, number one concern, and I said it earlier was how do we recruit another generation of people into farming? And the message cannot be a negative message. The message to young people is we need you. We need you to be farmers to produce food, but we also want you to have that conservation ethic that I referred to. If we use those as guiding principles, it makes an awful lot of difference. The messaging to young people is very critical right now as it relates to how do we recruit new people into agriculture.

Mr. RIBBLE. Thank you.

Mr. NOMSEN. Congressman, I would also talk about giving producers an adequate safety net so that they can invest in conservation programs, and the combination of conservation and having strong partnerships with producers out there on the landscape, that is the win-win for everybody. When we are doing good things for soil and water conservation and for wildlife and wildlife habitat—the mission of Pheasants Forever is all about habitat. You know, there isn't a farmer or rancher out there that isn't better off if they have some lands devoted to conservation. Conservation practices help protect America's production and our farm economy, and they have tremendous benefits like the rural recreation benefits from sportsmen, hunters, and fishers across the landscape and outdoor recreationalists as well. So those would—I would offer those as my principles to look at as you move forward on the farm bill.

Mr. NIEMEYER. I would agree with what Mr. Nomsen just said, and also add that the Senate bill was carefully crafted. We took 23 programs and took them down to 13, and it was a $6 billion hit. Now we all realize we have a deficit in the budget we have to deal with, but no more, because we believe that any steeper cuts to these programs would jeopardize the basic functions and make them ineffective. And as a farmer and in this farm bill, hopefully it will pass the Senate and pass the House. We are very supportive of the proposal developed by Chairman Debbie Stabenow and Ranking Member Roberts. And we hope to have prompt action on this bill, and we urge the House to pass the legislation in 2012 as well. Thank you.

Mr. RIBBLE. Thank you. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman. I now recognize Mr. Walz for 5 minutes.

Mr. WALZ. Thank you, Mr. Chairman, and thank you for putting together such a great panel. I very much appreciate this.

Before I start, I would like to make note for my colleague from Maine, Ms. Pingree had to leave, but she wanted me to note that Mr. Walt Whitcomb is here today. He is the Maine Agriculture Commissioner, and also a dairy farmer. So welcome, Mr. Whitcomb, today.

Each of you, thank you. Thank you for clearly understanding and articulating that agricultural production and economic prosperity is not mutually exclusive from sound environmental stewardship, articulating that in a way that I think the public needs to hear us say more. Thanks also for understanding and for the opportunities you create in rural America, for understanding that our rural areas are not just undeveloped urban areas, that there is a distinct difference and a reason in the choice of lifestyle that is out there, and for protecting our outdoor heritage. It is not just a hobby to go out, it is a part of who we are, and understanding that that all intertwines together, making those areas the place where we choose to live. So I am very encouraged when I hear all of you. I think the thoughtful responses and an understanding, and trying to come with and deal with reality as it is with a tightening budget situation, each of you really hit on something very important. How do we measure and get the most bang for the buck of getting those things there? I would also say the interconnectedness of everything that we do—Mr. Niemeyer, you brought up an incredibly valuable point that it is hard to think about, because it takes a vision. There is going to be an increasingly crowded and hungry world out there, and for us to be able to fulfill the responsibility to our people and to the world to feed and to clothe and to power them—research dollars into ways that we can improve and get more. I mean, it is hard for me to imagine that you see people complaining about 180 bushel corn out there, that we can do better than that. And we can. And this is going to be a part of that, as we cut down, getting more off less land, getting more in a smart manner. So I am very, very appreciative of what all you are saying.

Mr. O'Toole, I am going to narrow in here on something that struck at me on this, the Beginning Farmer and Rancher. It is a program that—thanks with Ranking Member Peterson's guidance for me, it is an issue that I came to understand how important it is in my district, and putting in provisions to make sure we are transitioning to our next generation, and making sure that this is not only a profitable industry, but it is one where they feel the same sense of pride and connection to the land.

So what we tried to do was put in some provisions that targeted again, if you will, targeted and set aside for those beginning farmers and ranchers. And I would like some of you with any expertise or any interaction you have had with that program to maybe comment a little bit on this. One of the things was—and in the Senate bill I am glad to see includes $25 million for the TIP program, transitioning those CRP acres over to a beginning farmer and rancher. Is it a good start? Any insight from any of you, if you just go right down the line, and is this beginning farmer and rancher program working, and is it a smart use of taxpayer dollars to target it to them?

With that, Mr. Niemeyer?

Mr. NIEMEYER. Absolutely. In our community, the average age of a farmer is 58 years of age. Unfortunately, my children do not want to farm, and I feel bad about that. But I really think that we need to get a new, younger generation involved in farming.

In response to one of your other questions, a smaller CRP means more competitive enrollment so that USDA can target program dollars to the most sensitive lands, including buffer strips and filter strips where maximum environmental benefits can be achieved. But market forces often dictate planting decisions, so what is important is that USDA—is that we have an adequate Working Lands Program in place so the producers can grow crops while continuing to address the conservation concerns.

Mr. NOMSEN. Congressman, this is an incredibly important area because it does look to the future and the future land stewards out there that are going to protect and preserve and continue our strong ag economy in this country, and right now some place on the Senate side this morning, Senator Klobuchar is offering an amendment to CRP to talk about encouraging beginning ranchers to implement grazing operations. And we think that is also part of the future as CRP continues to evolve and work for farmers and landowners.

Mr. O'TOOLE. Yes, sir. Actually my son and daughter are at the ranch. That is one of the reasons that I am able to be here today. They have both participated in purchase of livestock and purchase of land through that specific program. I think it is absolutely the right direction to be in, and critical, because it is not only the dollars and the low interest rates, it is the message. And the message is as important as anything. And I know this Committee deals with a lot of other issues, like forestry. Our operation is absolutely dependent on forest permits, and Federal land. That is the way the West works. I think that we need to be very aggressive, and when those permits are available, there are people that talk about retirement. That is absolutely the wrong direction. We should be bringing young people into integrating their opportunities. The same thing with water. There is a huge debate in the West right now, should water go to growth? Water needs to maintain itself on farms and ranches so that we can produce food. And that debate is ongoing and the pressures are fairly significant. But I can tell you that Mr. Vilsack has been very aggressive in his articulation of how important it is, and I can tell you that from our perspective at Family Farm Alliance, it is our absolute number one issue of importance.

Mr. WALZ. Well, I am very appreciative. Mr. Scholl, do you have a comment on this? I was just going to also mention, Mr. Schmidt, you brought up something good that is a portion of this beginning farm and rancher, it is providing that technical assistance that I can't—you have stressed it many times and I think that is wise advice.

Mr. SCHOLL. Yes, I do have a comment. Clearly, the programs you have cited, as I have traveled around the country talking to folks, they are very popular and they do get a very critical need, the human resource issue in agriculture is something that we all are very concerned about and needs to be addressed. Providing options for folks. One that hasn't been mentioned is the Conservation Loan Program as another means by which somebody that needs to do something to address resource concerns has the ability to do that, especially the folks that are just getting started.

But I would also take a step back and say that I am very proud of the fact that my farming operation that we have two of the next generation, even after my brother and I, involved in it, and what you do overall in terms of the economic viability of agriculture is so critical. The reasons those two from the next generation are involved in my operation is because they see a chance to have a good living, do something they really enjoy, compared to when I was in college, I am sorry to say, there was more of the attitude of, "Gee, you can go to town and have a lot better life." I think that has turned. That is very positive and the decisions you make really helped influence that.

Mr. WALZ. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Now I am pleased to recognize the full Committee Ranking Member, Mr. Peterson, for 5 minutes.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. O'Toole, you mentioned that NRCS and FSA are both writing checks, and this is something we talked about in the 2008 bill and weren't able to get anything done. But I don't believe that Congress has actually ever picked a side in this discussion about whether both the agencies should be writing checks. And the staff tells me that the agency heads, during the second Bush Administration, made this decision. So it sounds to me like you feel the Committee should look into this issue. I don't know if that is the case, and maybe—have you discussed this with other groups or with Secretary Vilsack?

You know, I have talked out there with some of my folks and if you want to get these NRCS people out on the ground, they should not be sitting in the office filling out forms and writing checks. I don't think, but——

Mr. O'TOOLE. It isn't just the writing of the check part of it, Congressman. You know, my own personal experience—and we live right on the state line and so we have double the regulatory situation than most people do. You know, so we see offices in both states, and maybe—I don't think this is out of bounds, but I feel like there is almost a lack of trust of farmers, and so——

Mr. PETERSON. Lack of what?

Mr. O'TOOLE. Lack of trust. And the paperwork—we have watched over a decade or 15 years. Guys that were out there when you made a call to NRCS, there were out there with measurement devices and getting their feet dirty and being with you. That doesn't happen anymore. It doesn't happen at that level anymore, and it is critically important as we go into a much more restricted budget situation, we all know the budget is going to be influential.

If you trust farmers, you are not going to have to do the paperwork and the administrative stuff that has just—it just seems like it has increased and increased and increased. So I will tell you that it is based on my personal experience, it is based on hearings that I did last year. I was shocked at the number of farmers who participate in NRCS. It was not a big enough number to achieve our goals, and a lot of that was because the feeling that the process was just so unwieldy that it wasn't working for them.

Mr. PETERSON. Well, yes, I agree. We have been—as I said, we tried to address this somewhat in the last bill but we got pushed back from the time the conservation district supposedly making any streamlining of that.

But, I would say a lot of that is actually caused by us, by what we have put on the Department, and they are so afraid to do anything anymore, and there are a lot of people in this country that do not trust farmers, that are hostile to farmers. They are suing people and driving up the cost of things and telling farmers how to do things. They have no idea what they are talking about. They want to interject themselves for ideological reasons, or some of these groups created a job for themselves by stirring up controversy. So there are a lot of problems, and we would like to simplify this but, it is that I just think that NRCS is not good at filling out forms and writing checks, and there is no reason for that. That could be done at FSA. They are better at that.

Mr. O'TOOLE. I couldn't agree more.

Mr. PETERSON. If we get rid of direct payments, they are going to have less to do at FSA, so shift some of that stuff over there and get these NRCS people out there in the country.

Which leads me to the next issue that I probably shouldn't even wade into, but this whole issue of the tying conservation compliance to crop insurance. I have had discussions about this, and I don't see how this can work without doing serious damage to the crop insurance system. We made a conscious decision in 1996 to separate these, and I, for the life of me, cannot see how you are going to be able to comply with this or make it work without damaging the system. Nobody has been able to explain that to me.

The second thing, and some people advocate to have an all or nothing deal, so if you have an NRCS agent that finds you out of compliance, you are going to lose your entire subsidy. It is too severe, and that is never going to happen. The Congress is never going to support that. So if we are going to do anything, it has to be more graduated.

Finally, I don't think there are people to do this. You know, the NRCS doesn't have the people to do this. They can't even file—get the 1026's. We have a backlog in our area of thousands of 1026's they can't get to. How in the world are they going to get out there, and who is going to make the crop insurance agents, the people that are going to do the conservation compliance? I don't think this is a realistic idea. I am not necessarily against the idea of trying to have some tie there, but nobody has been able to explain to me how this would work, and frankly, I don't think there has been a discussion between all the different groups to come to any kind of middle ground that people could live with. The end result is going to be it is not going to happen, but—I have gone over my time, but I see a couple people want to respond. Mr. Scholl?

Mr. SCHOLL. Thank you for raising the issue. Obviously this is one of the big unresolved issues or controversial issues out there, and I do think it is important that we address it. You know, how we do it, I guess I would suggest we do it the same way we have been doing it with the commodity programs that we had. We——

Mr. PETERSON. If I could stop you right there. You know, one of the other problems I was going to mention is that you have completely different approach by NRCS in counties that are right next to each other, so you have a situation where you don't have the same kind of application of this situation. That is another problem.

Mr. SCHOLL. And that is certainly an issue in some of the hearings and the meetings we have had that has been raised, and it needs to be addressed, but you don't need to have crop insurance agents enforcing this thing. It is a matter of if they have a subsidized policy that they are presenting, you sign an affidavit saying you have a conservation plan if you have highly erodible land, and then it goes into the system that is currently used in USDA of spot checks and the like, just like it is with other farm program payments. I think in terms of what was done in 1996, I mean, I wasn't here but crop insurance was certainly in a very different state at that point than it is today. A lot of progress has been made in terms of developing products.

Mr. PETERSON. One of the main reasons we did it was to get more people to take crop insurance. We still have a problem in the South where they are not in the crop insurance system, and that was why the decision was made was to make it more for people to get into crop insurance so we wouldn't have all these disaster problems and *ad hoc* disaster bills and all this other stuff. So I just think we have to be careful about this, because the way we are heading here there isn't going to be a safety net anymore for farmers. And I frankly think that what we are doing, what is going on in the Senate is a mistake because when these prices go down, and they will, there is not going to be any floor under them. And this happened in 1996 when we did Freedom to Farm and it collapsed, and 2 years later, we spend more money than we ever spent in history bailing people out. Well I just want to tell people that this time when these prices go down, and they will, there isn't going to be any money to bail anybody out. So people better be careful about what they are doing here. It is all good to look at this when the prices are good and everybody has been making a lot of money, but I have been around long enough to know that is going to go the other way.

Mr. SCHOLL. May I offer one more comment? I also want to compliment the work that you have done over the years in addressing the compliance issues, because you have put a lot of provisions in the law that I think have helped address a lot of the concerns you hear from producers as to why we may not want to do this. I mean, the idea of giving an exemption for extreme weather events is a good example, the idea of giving a person a year to be able to come into compliance if they are out of compliance. The goal of this is to get people in compliance to make sure we protect our natural resources. It is not to build a list of violators to play I got you, and you have really helped craft a program that does much more specifically get at if there is a problem, let us try to work with folks, give them the time and the effort—or the resources they need to address it. That program has evolved too, which makes a much more attractive option, particularly when you look at the fact that it has been pretty effective in terms of controlling erosion in particular, as you look at these policy decisions you are going to be making.

Mr. PETERSON. Mr. Niemeyer, if you could give a quick response and then we can go on to our second panel.

Mr. NIEMEYER. Again, we have a difference of opinion. NCGA supports title—compliance of all Title I programs, including any new program established in the 2012 Farm Bill. Compliance is already required for commodity support payments, disaster payment loans, and other conservation benefits. We should not create disincentives to purchase crop insurance, which is a critical risk tool for all farmers. If the farmers do have a more workable crop insurance program and a high level of participation, we will likely fall back into the cycle of an annual *ad hoc* disaster assistance program which you were talking about, Congressman Peterson.

Linking conservation compliance to crop insurance could risk the potential loss of financing from our lenders, which would affect our very abilities to operate and compliance could—would disrupt the important public-private partnership between the crop insurance companies and USDA and create concerns more over who acts as the regulator.

Thank you.

Mr. PETERSON. I yield back.

The CHAIRMAN. I want to thank the witnesses in the first panel for your testimony. It is greatly appreciated.

I would like to now welcome our second panel of witnesses to the table joining us, so please come up and take your place. We are joined on the second panel by Mr. David Bell, Executive Director of the Wild Blueberry Commission of Maine, on behalf of the Specialty Crop Farm Bill Alliance. We have Mr. Randall C. Gordon, Acting President of National Grain and Feed Association; Mr. Carl Homan, fifth generation dairy farmer, Homan Family Dairy Farms, on behalf of the National Sustainable Agriculture Coalition; Ms. Sara Hopper, Agricultural Policy Director, Environmental Defense Fund; and Mr. David Petty, cattle producer, representing the member—who is a member of the National Cattlemen's Beef Association from Eldora, Iowa, which is the new home of my oldest son and my daughter-in-law. So I am looking forward to come visit you sometime.

All the witnesses are settled in. Let us begin. Mr. Bell, please begin when you are ready.

STATEMENT OF DAVID K. BELL, EXECUTIVE DIRECTOR, WILD BLUEBERRY COMMISSION OF MAINE, ORONO, ME; ON BEHALF OF SPECIALTY CROP FARM BILL ALLIANCE

Mr. BELL. Thank you. Good morning, Chairman Thompson, distinguished Committee Members. Thank you for the opportunity to speak to farm bill conservation programs. I am David Bell, the Executive Director of the Wild Blueberry Commission of Maine, but today I come before you as a representative of the Specialty Crop Farm Bill Alliance, a broad coalition of specialty crop interests nationwide. We have over 300 different crops or commodities as part of the Alliance, over 120 members, and we were formed or got together to work specifically on the 2008 Farm Bill. We are grateful for the specialty crop focus that did come out of the 2008 Farm Bill, and look forward to working with you on ways to ensure that our industry is able to continue to provide Americans with access to abundant, affordable supply of nutritious fruits and vegetables, and other specialty crops.

American consumers want an agricultural production system that not only produces abundant, affordable, safe food and fiber, but also conserves and enhances the natural resource base and protects the environment. Unfortunately for producers, investments in natural resource management and conservation are rarely recouped in the global marketplace. Access to conservation programs such as EQIP, WHIP, and CSP, we all know the full names by now this morning, are critically important to specialty crop producers and our U.S. citizens.

We do have some specific recommendations that we would like to offer to Congress, and specifically regarding the EQIP conservation practices. In certain parts of the country, producers feel that the NRCS and conservation districts don't necessarily market equitably to specialty crop producers. We would ask Congress to consider, since we are roughly 25 percent of the production value of the U.S. agriculture, that EQIP funding be looked at accordingly.

Many specialty crop producers need irrigation water to meet demands for crop quality, and in many parts of the country, efforts to protect aquatic habitat will require producers to develop alternative water sources. As part of EQIP, we ask that you prioritize the sustainable use of ground and surface water for irrigation as a national priority.

Regions of the country are also working to create air quality regulations that will affect farmers, and again, we ask you to consider creating an air quality program with dedicated funding within EQIP.

We also face a lot of pest management challenges in specialty crops, and these are becoming more acute and complicated for a few key reasons. One, new invasive species, also knowledge-based pest management systems, Integrated Pest Management is becoming more complicated and we request that the time limitations on

Integrated Pest Management cost-share programs be eliminated within EQIP. We also suggest that NRCS should work more closely with land-grant universities and other entities to develop models for using EQIP funds to enhance pesticide stewardship.

Regarding WHIP, Congress should work directly—should direct the WHIP program to allow for organizations to work with multiple private landowners within a year. This would allow organizations familiar with regulatory requirements of law, such as the Endangered Species Act, to solve habitat conservation concerns of multiple private landowners efficiently.

Regarding CSP: better tailor it to local and regional needs, and therefore make it more useful for specialty crop producers, we suggest adding pest management as a priority area that can qualify for participation in the CSP program.

I thank you for the opportunity to testify, and I look forward to questions. Thank you.

[The prepared statement of Mr. Bell follows:]

Prepared Statement of David K. Bell, Executive Director, Wild Blueberry Commission of Maine, Orono, ME; on Behalf of Specialty Crop Farm Bill Alliance

Introduction

Thank you Chairman Thompson and Ranking Member Holden for holding this hearing on the conservation title of the farm bill. I appreciate the opportunity to speak to you today regarding the conservation priorities of the specialty crop industry. As we all are aware, sound conservation practices are of critical importance to the ability of farmers to succeed and continue to provide an abundant supply of healthy food, feed and fiber to America.

My name is David Bell and I serve as Executive Director of the Wild Blueberry Commission of Maine, which is devoted to the mission of assisting wild blueberry growers in developing sustainable practices and competing in a global food market. However, today I am joining you as a representative of the Specialty Crop Farm Bill Alliance (SCFBA), a broad coalition of specialty crop interests nationwide. The Alliance, which represents close to 300 different commodities and has nearly 120 members, was formed prior to the 2008 Farm Bill. As you know, with the support of Members of this Committee, that farm bill contained a solid investment in programs that are important to enhancing the competitiveness of U.S. specialty crop farmers. We are grateful for that focus on our sector and look forward to working with you on ways to ensure that our industry is able to continue providing Americans with access to an abundant, affordable supply of nutritious fruits and vegetables and other specialty crops.

Today, United States consumers have affordable access to the most abundant and diverse food supply in the world. However, aside from market diversity and competitive prices, consumers demand that food be held to very high quality standards. Likewise, consumers want an agricultural production system that not only produces abundant, affordable, safe food and fiber, but also conserves and enhances the natural resource base and protects the environment.

Unfortunately for producers, investments in natural resource management and conservation are rarely recouped in the global market place. The short-term economic value for the farmer does not compare to the long term ecological and fiscal benefits for the public and for future generations. The increased benefits for the public come in the form of a more stable and productive farm economy and an improved environment. Protecting the environment and productivity today will mean less cost for U.S. consumers in the future and will therefore assist in ensuring sustainability in the years ahead.

Current conservation programs administered by the USDA Natural Resources Conservation Service (NRCS) assists specialty crop farmers in meeting the multiple challenges of addressing sustainability, increasing environmental regulations while meeting U.S. consumer demand for abundant, safe, and reasonably priced food all within the competitive pressures of a global economy. Because of these factors, access to conservation programs such as the Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentives Program (WHIP), Conservation Stewardship Program (CSP) are critically important to specialty crop producers and U.S. citizens. Farmers' natural affinity for the environment, coupled with technical assistance and the resources necessary to implement conservation practices, results in long term stability for the nation's food supply. Our specific concerns and recommendations to strengthen current conservation programs include:

Environmental Quality Incentives Program (EQIP)

Issue: For a variety of reasons, EQIP Conservation Practices are not marketed to specialty crop producers equitably across the country.

Policy Recommendation: Since specialty crop producers account for approximately 25% of the production value of U.S. agriculture, Congress should apportion EQIP funding accordingly. This would set the expectation for NRCS to meet specialty crop producer conservation needs across the U.S.

Issue: Specialty crop producers need irrigation water when it is dry to maintain quality standards of their crops. In many areas of the country natural water bodies have limited ability to supply irrigation water during dry periods and maintain necessary fish habitat. NRCS EQIP sustainable water use practices and programs should be available to specialty crop producers needing assistance to meet state or Federal environmental or habitat objectives.

Policy Recommendation: As part of EQIP, prioritize the sustainable use of ground and surface water for irrigation as a separate national priority, rather than being included within the non-point pollution category.

Issue: In many specialty crop growing areas, air quality concerns and regulations related to agriculture are increasing.

Policy Recommendation: Congress should create an air quality program under EQIP with dedicated funding.

Issue: Pest management challenges for specialty crop producers are becoming more acute and complicated due to invasive species, phase out of older effective control materials, new research on crop/pest interactions and knowledge based management systems such as Integrated Pest Management (IPM).

Policy Recommendation: Time limitations on Integrated Pest Management (IPM) cost-share practices should be eliminated as pest populations are dynamic over time and innovative IPM programs are continually evolving to address ever changing pest complexes.

Policy Recommendation: NRCS should work with land-grant universities and other entities to develop model programs for using EQIP funds to enhance pesticide stewardship.

Wildlife Habitat Incentives Program (WHIP)

Issue: Increasingly, specialty crop producers need to meet state and/or Federal habitat requirements as mandated by laws such as the Endangered Species Act (ESA). Often navigating the complex rules associated with these laws requires specific understanding and skills farmers do not have. Models have been developed whereby nongovernmental organizations assist private landowners such as farmers in meeting "consultation requirements" with agencies by serving as the landowner agent. This is an efficient approach as each farmer does not have to become an expert in the implementation of ESA policies. However, in the 2008 Farm Bill a limitation on an entity accessing WHIP funding precludes an agent working with many landowners in a single year.

Policy Recommendation: Congress should direct the WHIP program to allow for organizations to work with multiple private landowners within a year.

Conservation Stewardship Program (CSP)

Issue: regarding the Conservation Stewardship Program, we believe that this program is based on a sound premise, incentivizing producers who adopt or maintain a wide range of conservation management practices aimed at resources such as soil, water and wildlife management. As you know, the CSP program addresses seven resource concerns: soil quality, soil erosion, water quality, water quantity, air quality, plant resources and animal resources.

Policy recommendation: In order to better tailor the program to local and regional needs and therefore, make it more useful for specialty crop producers, we suggest adding pest management as a priority area that can qualify for participation in the CSP program. This would add a resource concern to CSP's list of resource concerns. I know the Members of this Committee are aware that states can focus on three to five priority concerns.

Closing

Mr. Chairman and Ranking Member Holden, these are the highlights of the results of the farm bill review which the Specialty Crop Farm Bill Alliance (SCFBA) undertook over the course of the 18 months to assess the various titles of the farm bill to determine their impact on the specialty crop industry. As part of that review, I served as chair of the SCFBA working group that examined the conservation title. As you are well aware, the Senate Agriculture Committee has released their version of the farm bill and we appreciate the work of Chairwoman Stabenow and Ranking Member Roberts. We pledge to continue working with them and you on these policy recommendations to ensure that specialty crop producers can participate in meaningful and effective ways to conserve and maintain resources needed for environmentally sound agriculture production. Thank you again for this opportunity and I'll be happy to answer questions.

The CHAIRMAN. Thank you, Mr. Bell.

Mr. Gordon, when you are ready you can proceed with your 5 minutes.

STATEMENT OF RANDALL C. GORDON, ACTING PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION, WASHINGTON, D.C.

Mr. GORDON. Thank you, Chairman Thompson, and we appreciate you and commend you and this Subcommittee for holding this hearing on the conservation provisions of the 2012 Farm Bill. I am Randy Gordon, the acting President of the National Grain and Feed Association. Our membership consists of more than 1,000 grain and feed, grain processing, biofuels, exporting, and other grain-related companies that operate more than 7,000 facilities and handle more than 70 percent of the U.S. grain and oilseed crop. Most of members, though, are country grain elevators and feed manufacturers that are small businesses and operate in rural communities throughout the nation.

The NGFA strongly supports efforts by this Congress and the Administration to reduce, streamline, and better rationalize the plethora of conservation programs that currently exist to make them more efficient, understandable, and cost effective. We in particular support conservation programs for working farmlands, and the idling of cropland that is truly environmentally sensitive, where it is necessary to protect water quality, as currently is accomplished through various components of the Conservation Reserve Program, particularly the continuous sign up provisions.

But we do believe that the 2012 Farm Bill presents a tremendous opportunity for Congress to reset the CRP to reflect the reality of modern farming practices, including no-till and other agronomic practices, and to ensure that it no longer idles prime farmland. At the outset, we commend Congressman—Congresswoman Roby and Congressman Stutzman for introducing separate bills that we believe would move the CRP in decidedly the right direction. We also commend Chairman Lucas and Ranking Member Peterson for their efforts with the Super Committee to try and reshape the CRP.

The 2007 Natural Resources Inventory Report prepared by USDA, the most recent data publicly available, indicates that more than 8.7 million acres enrolled in the CRP at that time consisted of prime farmland. Freeing up those acres and other non-environmentally sensitive acres will be essential if U.S. agriculture is going to continue to grow and be a generator of jobs to meet the strong demand for food, feed, biofuels, and exports necessary to meet what the United Nations projects will be a 70 percent increase in global demand for food by 2050. We do believe the CRP can be structured in a way that enhances and fosters U.S. agriculture's ability to supply competitively priced corn and proteins to meet domestic and export demand, particularly for our livestock and poultry producers, enhance opportunities for beginning and tenant farmers to enter the business, and further economic opportunity and the quality of life in rural America. In this regard, a November 2011 survey of farmers conducted by the National Young Farmers Coalition found that 68 percent said access to land is the biggest single challenge they face.

Protecting environmentally sensitive land and enhancing the ability of U.S. farmers and ranchers to produce to meet growing demand are mutually compatible goals, but to achieve those twin goals, we respectfully recommend that Congress implement several statutory changes in the 2012 Farm Bill to reform the CRP and facilitate the return to production of idle land that can be farmed in environmentally sustainable ways.

First and foremost, we do urge a significant reduction in the current 32 million acre CRP cap. At a minimum, we think land capability Classes I and II, which amount to about 7.1 million acres, generally should be prohibited from future enrollments and reenrollments. Further, as mentioned previously, a total of as many as 8.7 million acres of prime farmland, inclusive of the 7.1 million acres I just mentioned, should be phased out as USDA transitions to a smaller, more targeted CRP. We also believe USDA should be directed to manage any reenrollments this year of acres expiring on September 30, 2012, in a similar manner.

Second, we recommend eliminating the current discretion for USDA to exceed this current 25 percent limit on CRP enrollments in individual counties, because of the economic damage that these heavy enrollments in certain states have caused to rural communities. We also recommend that Congress strongly considers requiring within that 25 percent cap a certain, say, five percent allowance for the most environmentally sensitive land eligible for continuous sign up enrollments.

Third, we encourage Congress to consider whether to provide a specific percentage or acreage-based figure within the CRP that should reserve—be reserved for the enrollment of the most environmentally sensitive lands and wetlands. There are some conservationists that argue that about 8 million acres of the CRP potentially could be consumed by such truly environmentally sensitive enrollments, which we do believe belong in the program.

Fourth, we encourage Congress to include language restricting enrollments of whole fields and whole farms by requiring such land to meet a higher EBI scoring mechanism than currently exists for partial field enrollments.

And finally, we do support allocating scarce conservation funding for existing CRP Transition Incentive Programs, and programs like that that benefit young farmers and socially disadvantaged farmers. We also have some recommendations in our testimony that would enhance the transparency of how USDA is managing the CRP program which currently is fairly obscure and obtrusive in the databases that we have been able to access.

Thanks for the opportunity and I look forward to your questions.

[The prepared statement of Mr. Gordon follows:]

PREPARED STATEMENT OF RANDALL C. GORDON, ACTING PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION, WASHINGTON, D.C.

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee, the National Grain and Feed Association (NGFA) commends you for conducting this hearing on the conservation provisions of the 2012 Farm Bill, and appreciates this opportunity to testify.

I am Randy Gordon, Acting President of the NGFA. Our Association was established in 1896, and consists of more than 1,000 grain, feed, processing, exporting and other grain-related companies that operate more than 7,000 facilities and handle more than 70 percent of all U.S. grains and oilseeds. Our membership includes grain elevators, feed and feed ingredient manufacturers, biofuels companies, grain and oilseed processors and millers, exporters, livestock and poultry integrators, and associated firms that provide goods and services to the nation's grain, feed and processing industry. The NGFA also consists of 26 affiliated State and Regional Grain and Feed Associations, and has strategic alliances with the North American Export Grain Association and Pet Food Institute.

The United States is blessed to have the most abundant, most affordable and safest food supply in the world. Our nation also still is the engine that drives the production of key agricultural commodities and products to feed an expanding world population. That demand shows no sign of letting up. The United Nations currently projects that feeding a rapidly growing global population of more than nine billion in 2050 will require a 70 percent increase in global food production. And while U.S. producers have harvested near record crops in recent years, domestic demand also has increased—particularly for U.S. corn to meet fuel ethanol demand resulting from the Renewable Fuels Standard mandate and strong crude oil prices.

The long-standing commitment by the United States to free enterprise, U.S. agricultural growth, and working lands conservation programs are essential and critical components to meeting this demand for food, feed, biofuels and exports—and doing so in an environmentally sustainable way.

The NGFA strongly supports efforts by Congress and the Administration to reduce, streamline and better rationalize the plethora of existing conservation programs to make them more effective and efficient. We also strongly support including provisions in the 2012 Farm Bill that encourage prudent conservation practices by agricultural producers, which serve in their best interest in protecting the viability of cropland for succeeding generations. The NGFA in particular supports conservation programs for working farmlands, and the continuation of programs that idle cropland that is truly environmentally sensitive or necessary to protect water quality, as is accomplished through such programs as the continuous signup provisions of the Conservation Reserve Program (CRP).

However, we believe the 2012 Farm Bill presents a tremendous opportunity to bring long-needed reforms to the CRP, on which I wish to focus during the remainder of this testimony.

Today's farming practices are dramatically different than what existed when the CRP was established a quarter century ago. Advancements in insect-resistant and herbicide-tolerant seed varieties, conservation and no-till farming, and other agronomic practices have made it possible to farm more U.S. acreage in environmentally sustainable ways. USDA's Economic Research Service, in a report issued in 2011, found that of the world's row crop production grown using conservation tillage practices to protect soil from wind and water erosion, the United States accounted for nearly 75 percent of soybeans, 45 percent of corn and 40 percent of wheat. By contrast, as recently as 1990, only 26 percent of planted acres in the United States were farmed using such conservation tillage practices. Further, because of the introduction of new biotechnology-enhanced crops, farmers no longer have to cultivate the soil several times a year to control weeds, thereby reducing soil disturbance and improving water infiltration. The NGFA strongly believes that current agronomic and technology practices employed by U.S. farmers should guide decisions made by Congress as it devises policies governing the size, scope and role of the CRP under the 2012 and future farm bills.

But in fact, CRP policy under the farm bill and its implementation by USDA has not kept pace with these changes in improved farm production practices. There is strong evidence that millions of acres of productive land suitable for row-crop production that can be farmed in an environmentally sustainable way remain locked up in the CRP. The 2007 Natural Resources Inventory prepared by USDA's Natural Resources Conservation Service (NRCS)—the most recent data publicly available—

indicates that more than 8.7 million acres of "prime farmland"[1] were enrolled in the CRP at that time. Other considerations in determining prime farmland include land use, frequency of flooding, irrigation, the water table and wind "erodibility."[2] It includes all land in Land Capability Classes I and II, and some land considered to be Land Capability Class III.

While the NGFA believes fragile land that cannot be farmed in an environmentally sustainable way belongs in the CRP, the idling of productive resources through land-idling conservation programs costs jobs, stymies growth and, in the case of land resources, has the potential to impact negatively the cost and availability of food.

Further, the idling of these productive U.S. crop acres in the CRP is contrary to world environmental protection because it encourages shifts in agricultural production to South America and other countries that do not have the type of environmental policies, regulations and farming practices that encourage sustainable food production as exist in the United States. Indeed, in the last decade the United States has had **zero growth** in total planted acreage, while the rest of the world has increased planted acreage by 152 million acres—about 60 percent of the size of total U.S. plantings. Meanwhile, the CRP—in acreage terms—still represents the fourth largest U.S. "crop." Trends like that not only undermine global environmental protection but also U.S. agricultural competitiveness in world markets.

In short, we believe now is the opportune time for Congress to implement meaningful reforms of the CRP, and focus scarce conservation dollars on working farmlands and the idling of only truly environmentally sensitive acres.

Damaging Impact of Idling Productive Farmland

The CRP is currently capped at 32 million acres under the Food, Conservation and Energy Act of 2008. We hasten to add that this statutory provision is a hard cap, but historically has been treated by USDA in its implementation of CRP as a goal to attain. If, as we believe, the goal of the CRP should be to maximize environmental benefits of enrolled acreage, such an unconditional, over-arching commitment to enroll a specific number of acres at or near the cap is misguided. For instance, the rental rate associated with enrolling acres eligible for the continuous signup provisions of the CRP—such as filter strips along waterways—may be considerably more expensive on a per-acre basis. But the resulting environmental benefits far exceed those associated with enrolling flat land that can be farmed in environmentally sustainable ways.

Continuation of the CRP at its current authorized level creates significant challenges to U.S. agriculture's ability to: (1) adequately meet growing domestic and export demand for grain, feed and grain products; (2) provide opportunities for young farmers, ranchers and tenant farmers to become involved in production agriculture; and (3) increase economic opportunity and quality of life in rural communities.

Let me touch on each of these briefly:

➢ **Adequately Supply Domestic Demand at Competitive Prices:** While U.S. producers have enhanced productive capacity for particularly corn and soybean production, increases in domestic demand continue—particularly for use as biofuels. Further, despite near-record crop production, grain stocks on a world basis remain comparatively tight. While U.S. corn yields have increased by about 2.5 bushels per acre per year since 1996, such yield growth generally has occurred during benign weather. Further, U.S. carryover stocks of corn and other feed grains are at historically low levels. Expansion of U.S. planted acres could help offset yield variability resulting from weather anomalies, particularly given tightening stocks-to-use ratios.

➢ **Producing and Competing in Global Markets:** As noted previously, between now and 2050, the world's population is projected to grow by more than 30 percent, resulting in an estimated 2.3 billion more consumers of food and ag-

[1] NRCS defines "prime farmland" as "land that has the best combination of physical and chemical characteristics for producing food feed, forage, fiber, and oilseed crops and that is available for these uses. It has the combination of soil properties, growing season, and moisture supply needed to produce sustained high yields of crops in an economic manner if it is treated and managed according to acceptable farming methods. In general, prime farmland has an adequate and dependable water supply from precipitation or irrigation, a favorable temperature and growing season, an acceptable level of acidity or alkalinity, an acceptable content of salt or sodium, and few or no rocks. Its soils are permeable to water and air. Prime farmland is not excessively eroded or saturated with water for long periods of time, and it either does not flood frequently during the growing season or is protected from flooding."

[2] *National Soil Survey Handbook* Part 622, Natural Resources Conservation Service website. Accessed 17.

riculture products. Food security—both physical and economic access to sufficient food—is vital to helping preserve world peace and averting shortages that have led to protests and riots in several foreign countries, as witnessed a few short years ago.

Export markets for grain and grain-based products continue to experience strong demand. In addition, export demand for beef, pork and poultry has been one of the most dynamic growth markets in the last 15 years. And new trade agreements being implemented now with South Korea, Colombia and Panama are projected to expand such demand even further. The United States has the comparative advantage to grow this export business—and do so in an environmentally sustainable way. But that will happen only if our livestock and poultry producers have access to competitively priced grain and protein supplies to fuel that growth. Some U.S. operations already have imported feed ingredients, and the economics of these businesses are shifting investment toward South America. It is imperative that the United States ensure that it has the capacity to meet the demand of these U.S.-based enterprises that create jobs and economic growth here, rather than overseas.

Further, there are increasing indications that more volatile weather patterns may result in drier than normal conditions in important grain-producing regions of the world, including Russia, northern China, some portions of Canada and the U.S. upper plains states, as well as some portions of South America, particularly Argentina. Indeed, U.S. corn production dipped each of the past 2 years because of weather anomalies. Exacerbating this situation is the simple fact that there currently are not enough arable acres of farmland globally to satisfy the future demand for food. And where farmland is available, the competition for acres between crops is intense. The current size and management of the CRP run counter to both the need and the opportunity to meet increasing global demand for U.S. agricultural products.

➢ **Continue to Provide Opportunities to Enter Production Agriculture to Young Farmers, Ranchers and Tenant Farmers:** Young and tenant farmers and ranchers face economic barriers to enter production agriculture, in part because they need to bid against the government for available cropland. Sixty-eight percent of farmers rank land access as the biggest challenge facing beginning farmers, according to a November 2011 study released by the National Young Farmer's Coalition. The same study found that farmers younger 30 were significantly more likely to rent land (70 percent) than those older than 30 (37 percent).

Research currently underway for the National Grain and Feed Foundation has found that several states historically have operated the CRP in a way that statewide rental rates closely approximate average cropland rental rates as computed by USDA's National Agricultural Statistics Service. Rather than rent or sell, many landowners choose to harvest these CRP rental payments, which is detrimental to young and tenant farmers attempting to enter production agriculture or who are struggling to expand and build economic-sized units for their business operations. This is a particularly acute concern to the future of U.S. production agriculture, given the aging demographics of the nation's agricultural producers. A "right-sized" CRP and programs like the Transition Incentives Program (TIP) can help encourage future generations to enter the farming profession, particularly young and small-scale tenant farmers.

➢ **Increase Economic Opportunity and Quality of Life in Rural America:** The negative impacts of idling productive farmland in the CRP also manifest themselves at the local rural level. As productive resources are idled, opportunities to make long-term livable wages are drained from rural communities. The CRP, if not right-sized and managed properly with a focus on the most environmentally sensitive lands, slams the door on economic activity that is the lifeblood of rural economies. Idle land reduces economic activity generated by seed sales, tractor sales and servicing, custom harvesting crews, fertilizer and chemical dealers, and hired help. Land-idling programs that pit the government against commercial farmers in bidding for land cause more people to lose jobs and encourage a continued population exodus from rural communities. And landowners who often move away from their rural communities take the money associated with CRP rental payments with them.

A March 6, 2011 article from ***The Spokesman-Review*** in Spokane, Washington, is just one of many examples of this damaging impact. The newspaper quotes Greg Partch, a county commissioner in Washington State as saying: "CRP is killing our towns. When farmers take a conservation payment rather than plant a crop, they don't buy fuel and fertilizer, they don't buy machinery and seed, and they don't hire help for the harvest. In short, the payments stifle the local economies by suppressing high production agriculture in an area that boasts some of the best wheat-growing conditions in the world."

This is but one example of the real-world impact that heavy acreage-idling in the CRP—in some cases exceeding 25 percent Congressionally mandated maximum cap of the county's cropland—is having on once-vibrant rural communities.

Recommendations for Change to CRP

The NGFA believes that the goals of protecting environmentally sensitive land and enhancing the ability of U.S. farmers and ranchers to produce to meet the world's growing demand for food, feed, biofuels and exports are mutually compatible. But to accomplish those twin goals, we believe it is necessary for Congress to reboot the CRP to make it more responsive and right for the times.

As noted previously, the National Grain and Feed Foundation currently is in the midst of a research project that is evaluating the CRP. We anticipate that additional recommendations will flow from the results of that study, which is projected to be completed in late May.

But based upon the findings thus far, the NGFA recommends that the following legislative changes be included in the 2012 Farm Bill to reform the CRP and facilitate the return to production idled land that can be farmed in an environmentally sustainable way:

➢ First and foremost, we recommend that the current 32 million acre maximum CRP cap be reduced significantly. At a minimum, Land Capability Classes I and II (approximately 7.1 million acres) should be prohibited from future enrollments and re-enrollments. Further, as cited previously, a total of more than 8.7 million farmland acres (including some Land Capability Class III acres) of "prime farmland" were enrolled in CRP as of 2007 (the most current data available from NRCS). In the 30 states with the greatest CRP enrollments, approximately 8.5 million acres are considered to be prime farmland. Such good quality land currently idled in the CRP is highly concentrated in several major grain-production states like Kansas, North Dakota, Minnesota, Missouri, Oklahoma and Texas. This land can be can be farmed in an environmentally sustainable way to meet growing food demand.

➢ Second, eliminate the discretion for USDA to exceed the 25 percent limit on CRP enrollments in individual counties because of the economic damage such enrollments have had on rural communities. There are indications that USDA may be using outdated cultivated cropland data in some counties when determining the 25 percent cap, which we believe Congress should require the Department to recalculate. Further, we recommend that USDA be required to reserve within the 25 percent county limit at least a five percent allowance for acres enrolled in the wetlands reserve and continuous sign-up process.

➢ Third, the NGFA urges that Congress direct that USDA transition to a smaller CRP by reducing the number of "prime farmland" acres enrolled. In managing this transition, we support requiring USDA to offer penalty-free early outs of Land Capability Classes I, II and III enrolled in CRP, with producers doing so required to implement prudent conservation practices on such lands. We also believe USDA should carefully manage any reenrollments of acres expiring on September 30, 2012 in a similar manner.

➢ Fourth, we encourage Congress to consider whether to provide a specific percentage- or acreage-based figure within the CRP reserved for the most environmentally sensitive lands. As of April 2011, the CRP included 5 million acres enrolled under continuous signup procedures. Some conservation leaders have expressed concern that adequate CRP acreage should be reserved each year to ensure that such environmentally sensitive lands can be enrolled, with some suggesting that as many as 8 million acres of the CRP should be reserved for such high-priority enrollments. We believe this is an issue what warrants Congress's attention as it considers the future of the CRP.

➢ Fifth, we encourage Congress to include legislative language that would restrict whole-field and whole-farm enrollments in the CRP by requiring such land to meet a more stringent environmental benefits index (EBI) scoring threshold than partial-field enrollments. During the early years of CRP enrollments, whole farms and whole fields were enrolled, which brought in land of varying quality.

➢ Sixth, the NGFA supports allocating additional available conservation funding for the Transition Incentives Program, currently authorized at $25 million, for transitioning expired CRP acreage from retired or retiring landowners to beginning or socially disadvantaged farmers. This program quickly reached its capacity after being authorized as part of the 2008 Farm Law, and needs additional resources.

In addition, the NGFA encourages Congress to include, as part of the farm bill process, the following directives to USDA in its implementation and administration of the CRP in the future:

➢ Direct USDA's Farm Service Agency and NRCS to compile a report within 1 year of enactment, and updated biannually thereafter, to bring increased transparency to how the CRP is being managed. Among other things, we believe such a report should include: (1) the quantity of acreage enrolled in CRP by Land Capability Class; (2) a compilation of such Land Capability Class acreage by county; and (3) the identity of counties that are at or near the 25 percent enrollment cap. We also recommend that USDA be required to post this report on its website. These data will increase transparency and enable USDA and stakeholders to better analyze the prudent management of the CRP going forward.

➢ Consider either freezing CRP rental rates for 3 to 5 years or implementing a percentage-based limit on rental rates paid for CRP land compared to average county rental rates.

➢ Limit the number of CRP general sign-ups offered.

Conclusion

The NGFA believes it is important for future conservation policies to focus on: (1) providing access to sufficient acres to meet demand growth, without shorting supplies necessary to grow important demand sectors, such as exports, feed, and domestic livestock and poultry markets; (2) working farmlands, minimizing reliance on idling of productive land resources and strengthening the economies of rural communities while still achieving environmental and other policy goals; (3) continuing to provide future opportunities for young farmers and ranchers, as well as tenant farmers, to be involved in U.S. production agriculture; and (4) minimizing the negative impacts of the CRP in undermining jobs, local rural economies and depopulating rural communities.

The NGFA recognizes the importance of, and supports, strong conservation programs for working farmlands as part of any successful farm policy, and encourages Congress to designate such programs as a priority with scarce available funding.

Thank you for the opportunity to testify, and we look forward to working with you as the Committee addresses these important issues in the farm bill. I would be pleased to respond to any questions you may have.

The CHAIRMAN. Thank you, Mr. Gordon.

I am pleased to once again welcome Mr. Homan. Mr. Homan, go ahead and proceed with your 5 minutes of testimony.

STATEMENT OF CARL V. HOMAN, DAIRY PRODUCER, HOMAN FAMILY DAIRY FARMS, CENTRE HALL, PA; ON BEHALF OF NATIONAL SUSTAINABLE AGRICULTURE COALITION

Mr. HOMAN. Thank you, Chairman. I thank you, all the Members of this Committee, for your service to me as a citizen of the United States, and your government hours spent.

As this Subcommittee considers conservation, energy, and forestry, thank you for the opportunity to speak to you how the farm bill conservation programs have helped my farm, and how important it is in the next farm bill to strengthen these programs so that other farmers in Pennsylvania and across this country also have the opportunity to improve their operations.

My wife Diane, my son Justin, and myself operate a 75 cow dairy farm in Centre County near Centre Hall, Pennsylvania. We own 275 acres and rent additional acres to produce crops for our livestock. With our grandchildren on the property, this Pennsylvania Century Farm has provided a home for seven generations of families since 1906. Protecting and sustaining the farm for our family, the community, and the nation is an important value of my family, so I have been involved in farmland preservation and formed an ag security area in our township. I have served 6 years on the Centre County Ag Land Preservation Board. In 2008, I was honored to be named the year's Outstanding Farmer Conservationist by the Centre County, Pennsylvania, Conservation District, so I can directly speak to how the resources and technical assistance offered to farmers by the USDA conservation programs protects the natural resources of our community, improves the productivity and profitability of our farm.

I would like to talk about the ways in which conservation programs have been used on our farm. The CSP program administered by the USDA Natural Resources Conservation Service, our farm is enrolled in CSP through 2016. The cost-share provided by the CSP has allowed us to incorporate what are called conservation enhancements to the farm. Three years ago, we started a pasture project in which increased grass cover and legumes—and this produces the nitrogen for the crops and produces a better crop, and more feed value in the pasture, while also keeping the fields in grass longer than a standard crop rotation. This improves the quality of our soil while also reducing nutrient sediment runoff.

As for writing the next farm bill, I urge Members of this Committee to maintain a strong funding base for Conservation Stewardship Programs. That is one of my main concerns.

The EQIP program has been very important in helping to protect the natural resources on our farm. For just one example, we use EQIP funding to establish sod waterway to prevent spring rains and snow melt from carrying sediment into the nearby streams. EQIP is a very important part of the USDA's conservation toolbox, providing cost-share payments for structure practices, as well as initial cost sharing support to farmers who want to begin to increase their level of stewardship through management change. There are things we can do to make the EQIP more useful to farmers, and I have included a few of my own recommendations in my written testimony.

The CREP program is part of the larger program called CRP. It is one of the most cost effective programs in the Commonwealth of Pennsylvania for reducing pollution into our local streams and into the Chesapeake Bay. On my farm, we have enrolled 6.6 acres of wet pasture acreage along the stream in CREP and created a forestry buffer. CREP has provided rental payments to help offset the loss of this pasture acreage. These measures not only improve water quality, but also improves the health of our dairy herd and increases our ability to manage the movement of the cattle.

I hope that I have given you some ideas of how important the farm bill conservation programs are to farmers like myself. We can and have implemented many improvements on our own, and these improvements need to be recognized, but there are certain improvements that will be out of reach economically for many farmers without solid conservation support in the next farm bill.

I appreciate the opportunity to be here today and share with you my ideas, and I will be happy to try to answer any questions that you might have.

[The prepared statement of Mr. Homan follows:]

PREPARED STATEMENT OF CARL V. HOMAN, DAIRY PRODUCER, HOMAN FAMILY DAIRY FARMS, CENTRE HALL, PA; ON BEHALF OF NATIONAL SUSTAINABLE AGRICULTURE COALITION

Good morning, Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee on Conservation, Energy and Forestry. Thank you for the opportunity to testify about the importance of the farm bill's conservation programs from a farmer's perspective.

My wife Diane, my son Justin, and I operate a 75 cow dairy farm in Centre County near Centre Hall, Pennsylvania. We also have 275 acres and rent additional land on which we grow crops. With our grandchildren now on the property, the farm has provided a home for seven generations of our family. In 2007, the farm was designated a Pennsylvania Century Farm.

Protecting and sustaining the farm for our family, the community, and the nation is an important value to my family. In addition, I helped form Centre County's first Agriculture Security Area in the 1990's to protect farmland from a highway bypass. And I have served for 6 years on the Centre County Agricultural Land Preservation Board.

In 2008, I was honored to be named that year's Outstanding Farmer Conservationist by the Centre County Pennsylvania Conservation District, and I remain a firm believer in the value of conservation to our farm. The resources and technical assistance offered to farmers by USDA's conservation programs protect the natural resources of our local communities. Many conservation practices can also improve the operations' bottom line.

In addition, our farm is in a watershed that ultimately drains into the Chesapeake Bay. We know that how we and our neighbors manage our farms affects water quality in Centre County and all the counties downstream clear down to Virginia. The farm bill's conservation programs serve a critically important role in controlling the loading of nutrients and sediment into Pennsylvania's streams, and the Chesapeake Bay itself.

We have used a no-till system for the past 10 years to keep soil in place, reducing sediment and nutrient run off from our fields. We use a complex resource-conserving rotation of corn, oats, wheat, alfalfa, clover, timothy hay, soybeans, and rye cover crops that builds healthy soils. We incorporated cover crops in the rotation 5 years ago, using mostly rye and occasionally wheat But we also saw that we needed to improve the conservation performance of our farm and turned to the farm bill conservation programs for cost-share and technical assistance.

Conservation Stewardship Program (CSP)

The CSP is a whole farm and comprehensive working lands conservation program administered by USDA's Natural Resources Conservation Service (NRCS). CSP targets priority resource issues in specific states and watersheds, paying farmers to adopt new conservation enhancements and manage ongoing conservation activities to help solve priority resource concerns. CSP payments are directly linked to environmental benefits derived from particular practices and conservation systems.

The program helps farmers use their management skills to maintain and enhance the land and the food, fiber, and fuel that it produces. In the first 3 enrollment years (2009, 2010, and 2011), CSP enrolled 30,197 farmers and ranchers operating nearly 38 million acres of farm and ranchland that is now under 5 year, renewable CSP conservation contracts. In each of those years, demand for the program exceeded acreage available by about 2 to 1, resulting in very competitive enrollments.

The 2012 sign-up for CSP is offering 37 conservation practices and 68 conservation enhancements as well as supplemental payments for resource-conserving crop rotations. Conservation performance is tied to how effectively the activities and enhancements address the priority resource concerns for the state or region within a state, and payment rates are calibrated directly to expected environmental benefits.

The enhancements are unique to CSP and help drive advanced conservation. For instance, for cropland, some of the top ranking enhancements include continuous cover cropping, using cover crops as nitrogen sources, resource-conserving crop rotation, continuous no-till, extension in the size and scope of riparian buffers and field borders, transition to organic cropping systems, and advanced high level integrated pest management. Top livestock enhancements include intensive managed rotational grazing, rotation of feeding and supplementation areas, and managing access to water bodies and streams.

Our farm is enrolled in the CSP through 2016. The cost-share provided by CSP has allowed us to incorporate conservation enhancements to the farm. Three years ago, we started a pasture project in which increased grass cover and legumes are used to increase nitrogen value and feed value to our pastures, while also keeping the fields in grass longer than a standard crop rotation. This improves the quality of our soil, while also reducing nutrient and sediment runoff.

As you write the next farm bill, I urge Members of this Committee to maintain a strong funding base for the Conservation Stewardship Program. That is my main recommendation.

Beyond enough funds, there are other changes that could be made to increase the program's effectiveness and make it work better for farmers and ranchers. These improvements should be made to CSP in the next farm bill:

- **Simplify the program by ranking proposals solely according to the environmental benefits score secured by the total conservation system, including the new enhancements to be adopted and the existing conservation baseline.** Every aspect of the CSP design, including payment formulations and ranking, should keep the focus on conservation outcomes, adaptive management, and continual improvement, not on the timing of initial adoption.
- **Allow producers to renew their CSP contracts so long as they have satisfied all previous contract obligations and increased their conservation score since the previous renewal.** Currently, CSP contracts can only be renewed once. This creates a barrier to fulfilling the purpose of the program, to advance ongoing and adaptive land stewardship to maintain and improve environmental performance. We have major resource challenges and we need policy that sends the right long term signals to farmers.

Environmental Quality Incentives Program (EQIP)

EQIP has played a key role in helping to protect and enhance natural resources on the farm. We used EQIP funding to establish sod waterways that prevent spring rains and snow melt from carrying sediment to waterways. EQIP is an essential piece of USDA's conservation toolbox, providing one-time cost-share payments for structural practices as well as initial cost-share support to farmers who want to begin to increase their level of stewardship through management changes. But EQIP could be improved to make it more useful to farmers.

First, EQIP, and in fact all the conservation programs, needs to focus more on reducing nutrient losses. All over the world there are streams, lakes and coastal areas that are suffering from low oxygen because of excess nutrients. In the Chesapeake Bay watershed, we are under a lot of pressure to put in more practices to reduce our nutrient losses quickly. EQIP and other farm bill conservation programs need to focus on that. The Chesapeake Bay Watershed Program that you created in the last farm bill has helped Pennsylvania farmers a lot, and you ought to continue that program.

Second, in order to ensure the program is achieving results and the biggest bang for the buck, you should bring back progressive planning requirements. A progressive planning requirement used to be applied to EQIP but the program currently has no statutory planning standard. In Pennsylvania, we have a planning requirement for livestock operations that works well. Bringing back the progressive planning requirement for all of EQIP will help ensure that practices funded by the program are aimed at really solving resource problems. Under progressive planning, all funded projects would address priority resource concerns and promote progress toward the non-degradation or sustainable use criteria for those concerns. With progressive planning, farmers can receive technical assistance in identifying conservation issues on their farm and measuring their progress in dealing with the issues. This can help ensure the best use of the limited conservation dollars in these difficult fiscal times.

Third, the farm bill should eliminate the unfair $20,000 payment limitation for organic farmers through the EQIP Organic Initiative. The same EQIP payment limit should apply regardless of type of farm. Our farm does not use the EQIP organic provisions from the 2008 Farm Bill, but we have seen the role that organic farms can provide to increase the value and diversity of farming, especially for beginning farmers. In Pennsylvania, the Department of Agriculture has initiated a "Path to Organic Transition" program to provide technical assistance to farmers in transition to organic agriculture, including assistance with developing local markets. The Path to Organic Program has two main purposes: first, to provide an incentive for farmers to make the transition to certified organic production practices; and second, to evaluate organic production practices as tools in improving soil health, protecting water quality and sequestering atmospheric carbon on a pilot basis outside of the traditional research environment. EQIP funding provided to organic farmers, on an equal level with other farmers, can help them implement sound conservation practices that are consistent organic production systems.

Conservation Reserve Program

Our farm also has enrolled acreage in the **Conservation Reserve Enhancement Program (CREP) component of the Conservation Reserve Program.** CREP is one of the most cost-efficient and effective programs in Pennsylvania for reducing pollution in the Chesapeake Bay watershed. On my farm, we enrolled 6.6 acres of wet pasture acreage along a stream in CREP and created a forest buffer. CREP provide a rental payment to help offset the loss of pasture acreage. We then used funding from the Penns Valley Conservation Association and the National Fish and Wildlife Foundation to improve management of the pasture with fences, a cattle walkway and a watering system. These measures not only improved water quality, they also improved the health of dairy herds and increase our ability to manage the movement of the cows with rotational management and other practices.

In addition to CREP, Pennsylvania can benefit from the continuous Conservation Reserve Program (CCRP) that provides for the establishment of contour grass strips, wetland buffers, filterstrips, and other practices that intersperse smaller acreages taken out of production with productive land. Pennsylvania has also designated acreage identified in our Pennsylvania State Wildlife Action Plan for enrollments in the CRP's State Action for Wildlife Enhancement (SAFE) component. The SAFE project targets 5,200 acres of seasonal pools and early successional grass for enrollment. This habitat supports sensitive wildlife identified in the Pennsylvania State Wildlife Action Plan.

The next farm bill should direct USDA to retain sufficient acreage for the continuous sign-up in CCRP, CREP, and SAFE. At least 25 percent of total CRP acreage should be available for CCRP, CREP, and SAFE enrollment. The CRP should be managed to by the Farm Service Agency to ensure that no fewer than 500,000 acres are available each year for CCRP and CREP enrollment.

Cooperative Conservation Partnership Initiative

In July 2011, the NRCS approved a Conservation Cooperative Partnership Initiative for the Chesapeake Bay Watershed (CCPI–CBW). This initiative, sponsored by the Chesapeake Bay Foundation, includes a Healthy Dairies, Healthy Streams (Pennsylvania) component to implement agricultural best management practices on dairy farms; restore about 12 miles of riparian buffers; and treat animal concentration areas and barnyards to reduce sediment and the loss of nutrients into streams.

The CCPI–CBW emphasizes a "systems approach," allowing landowners to carry out multiple conservation practices and management techniques that work together to address potential nitrogen and phosphorus losses in agricultural runoff. NRCS leverages financial and technical assistance with partners' resources to install soil erosion-control practices, manage grazing lands, improve forestlands, establish cover crops, and reduce on-farm energy usage. On our farm, we used funding from the CCPI–CBWI to provide a concrete base and a walkway with a geo-surface in the barnyard. This improved surface makes it easier to keep manure and water separates. It also keeps our cows cleaner and has improved herd health.

I understand the Committee may be working on a successor to the CCBI called Regional Conservation Partnerships. In developing the revised program, I urge you to explicitly include reducing nutrient losses as one of the priorities, to provide as much flexibility as possible so that local partnerships can pursue innovations in conservation practices and program delivery, and provide a mechanism for non-governmental organizations to receive USDA assistance for delivering technical assistance to producers participating in the partnerships.

In conclusion, I appreciate this opportunity to be here today to talk about the importance of conservation programs to my farm and to share some ideas with you. I will be happy to try to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Homan.

Ms. Hopper, please go ahead and proceed with 5 minutes for your testimony. Thank you.

STATEMENT OF SARA HOPPER, AGRICULTURAL POLICY DIRECTOR, ENVIRONMENTAL DEFENSE FUND, WASHINGTON, D.C.

Ms. HOPPER. Chairman Thompson and Members of this Subcommittee, thank you for the opportunity to testify. My name is

Sara Hopper, and I am the Agricultural Policy Director for Environmental Defense Fund. EDF is a nonprofit organization dedicated to using science and economics to find practical and lasting ways to meet our biggest conservation challenges. We believe that economic prosperity and environmental stewardship can go hand in hand, and nowhere is that more true than in the management of America's working farms, ranches, and private forest lands.

The continuing economic prosperity of agriculture is critical to the nation, but it is also true that agriculture has a significant environmental footprint. That is why EDF is so interested in ways to advance both the economic and the environmental sustainability of agriculture. In the past, periods of high commodity prices have spurred the conversion of marginal, environmentally sensitive lands to crop production. When this happened in the 1970's, Congress recognized that the dramatic increases in soil erosion that followed threatened not only environmental quality, but also long-term productivity. In the 1985 Farm Bill, it created the Conservation Reserve Program and designed other new Federal policies to reduce erosion and the loss of wetlands. Each farm bill since then has reaffirmed the commitment to conservation that Congress made in 1985. Funding for conservation incentives has increased significantly over the years, helping producers improve stewardship as they have increased productivity.

But while significant progress has been made, environmental problems associated with agricultural production persist, and in some cases, they are getting worse. Pressure on the American landscape is building. The need to increase production to feed a growing global population means it is more important than ever to maintain and strengthen our commitment to conservation.

As you know, however, this is a difficult time to write a farm bill, given the budget challenges that we face. Fortunately, Members and staff of this Committee have already done considerable good work on which to build. Last fall when Committee leaders worked to develop recommendations to the Super Committee, they didn't focus only on cutting spending, they also thought carefully about what policy improvements could be included to make conservation programs more effective. We believe the work done last fall showed a continuing commitment to conservation in the face of significant budget pressure.

As you develop the 2012 Farm Bill, we urge you to maintain that commitment by doing two things. Number one, minimize cuts to conservation programs, and number two, improve policies within the conservation title to ensure that we can accomplish more, even with fewer resources.

We believe it is important that Members recognize that any cuts to conservation programs will be painful. These programs are oversubscribed now at current funding levels. Many of you have producers in your districts who may have applied and been turned away due to insufficient funding. When funding is cut, that gap between producer demand and available resources will grow. Policy improvements can help reduce, but can't eliminate the impact of cuts, so minimizing the cuts is critical.

With respect to policy improvements, I want to focus today on one thing that can help us get the most bang for the Federal conservation dollar, and that is promoting partnerships. The 2008 Farm Bill included two new initiatives, the Cooperative Conservation Partnership Initiative, and Agricultural Water Enhancement Program, designed to engage state and local partners in projects to help producers address state and local conservation priorities. These initiatives share three important features. First, they leverage resources from partners, bringing additional money to the table to help producers solve environmental problems. Second, they rely on local leadership to focus resources where they are most needed, and third, they help demonstrate results, because partners have to help with the monitoring evaluation and reporting of project outcomes.

We strongly support the inclusion of a larger, stronger partnership program in the 2012 Farm Bill. This program should be built on the best aspects of the 2008 Farm Bill's Cooperative Conservation provisions. Emphasizing partnerships in the next farm bill will help stretch Federal conservation dollars further, focus resources to solve problems, and demonstrate results. Demonstrating results is important. We need to get better at quantifying the environmental benefits that conservation programs help producers deliver to the public. Doing more to engage partners who can help with that would be a big step in the right direction.

The policies included in the conservation title of the 2012 Farm Bill will do a lot to determine whether conservation programs will be effective in helping the nation meet its conservation challenges. EDF looks forward to working with this Committee to ensure that the 2012 Farm Bill includes the strongest possible conservation title. Thank you again for the opportunity to testify.

[The prepared statement of Ms. Hopper follows:]

PREPARED STATEMENT OF SARA HOPPER, AGRICULTURAL POLICY DIRECTOR, ENVIRONMENTAL DEFENSE FUND, WASHINGTON, D.C.

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee, thank you for the opportunity to testify concerning conservation programs and the 2012 Farm Bill. My name is Sara Hopper, and I serve as Agricultural Policy Director for Environmental Defense Fund (EDF), a nonprofit organization dedicated to using science and economics to find practical and lasting ways to meet our most serious conservation challenges. On behalf of over 700,000 members, EDF forges partnerships and works to harness the power of market incentives to advance environmental solutions. We believe that economic prosperity and environmental stewardship can go hand in hand, and nowhere is that truer than in the management of America's working farms, ranches and private forestlands.

Over the past 2 centuries, agriculture has transformed the American landscape. Farmers, ranchers, and private forest landowners have contributed significantly to economic and social progress in this country, but this progress has not come without environmental costs. In the past, periods of high commodity prices have spurred the conversion of marginal, environmentally sensitive lands to crop production. Congress recognized that the resulting increases in soil erosion and degradation of other important natural resources threatened not only environmental quality, but also farm profitability and productivity over the long term, and it responded with Federal policies that promoted conservation.

In the years following the Dust Bowl, for example, USDA's newly established Soil Conservation Service (now the Natural Resources Conservation Service) and new Federal policies assisted farmers in improving the management of their lands to reduce soil erosion. When high commodity prices in the 1970s caused production to expand onto marginal lands again, the result was another dramatic increase in soil erosion. Policymakers responded by creating the Conservation Reserve Program and by designing other policies in the 1985 Farm Bill to reduce erosion and the loss of wetlands.

Each farm bill since 1985 has reaffirmed the commitment to conservation that Congress made in 1985. Funding for conservation incentives has increased significantly over the years, helping farmers, ranchers and private forest landowners to improve stewardship as they have increased productivity.

But while significant progress has been made, environmental problems associated with agricultural production persist, and in some cases they are getting worse. Soil erosion is still excessive in many places, and nitrogen and phosphorus lost from crop and livestock operations contribute significantly to water quality impairments in too many of the nation's rivers, lakes and bays.

Commodity prices have increased again, intensifying pressure on the American landscape. And with the global population projected to increase from approximately seven billion today to nine billion by 2050, the need to increase production to meet expected future global demand means that it is more important than ever not only to maintain, but to strengthen, our commitment to conservation.

As Congress takes up the 2012 Farm Bill, however, it faces the significant challenge of how to strengthen conservation programs even as it cuts overall farm bill spending to help reduce the Federal budget deficit. The proposal that leaders of the House and Senate Agriculture Committees developed last fall for the Joint Select Committee on Deficit Reduction (the Super Committee) would have cut \$23 billion over 10 years from farm bill spending, including roughly \$6 billion from conservation programs.

In view of increasing demands on our natural resources, \$6 billion in cuts to Federal conservation spending will be painful. Yet leaders of the House and Senate Agriculture Committees worked in a bipartisan way last fall to minimize the impact of that level of cuts by also including in the proposal to the Super Committee policy improvements designed to increase the effectiveness of conservation programs.

While the failure of the Super Committee to reach a larger agreement meant that last fall's proposal did not advance, we believe the work done by Members and staff of this Committee on the conservation title of that proposal demonstrated a continuing, strong commitment to conservation—even in the face of significant budget pressures. As you build upon that work in developing the conservation title of the 2012 Farm Bill, we urge you to maintain that commitment. We believe that the three most important ways in which you can do that are to:

- Ensure that conservation spending cuts do not exceed \$6 billion over 10 years;
- Ensure that if the Conservation Reserve Program (CRP) is to be smaller, it and other conservation programs will be effective in both maintaining and building upon the conservation benefits CRP has delivered to date; and
- Promote partnerships that leverage resources from non-Federal sources and help focus conservation efforts to address the most significant conservation challenges associated with agricultural production.

Ensure That Conservation Spending Cuts Do Not Exceed \$6 Billion Over 10 Years

The \$23 billion cut in overall farm bill spending proposed last fall—and reaffirmed in the farm bill draft that the Senate Agriculture Committee is moving forward this week—represents a significant contribution to deficit reduction. As you know, however, the House Budget Committee and others have proposed deeper cuts to total farm bill spending. While we recognize the challenge that Members of this Committee will face in moving a bill through the House that cuts no more than \$23 billion total, we believe that whatever happens, it is critical that Congress not cut more than \$6 billion from conservation programs over the next 10 years.

Ensure the Effectiveness of a Smaller CRP

Under the 2008 Farm Bill, CRP was capped at 32 million acres, and current enrollment stands at almost 30 million acres. Both last fall's proposal to the Super Committee and the draft conservation title released Friday by the Senate Agriculture Committee reduce the size of CRP in order to generate savings. The Senate draft would step enrollment down to a maximum of 25 million acres by 2017.

Ensuring that the return of roughly 4 million acres of conservation land to production does not increase soil erosion, worsen existing water quality problems (particularly in the Upper Mississippi River Basin) or harm wildlife populations will require a careful effort by Congress and the Administration to ensure that the right incentives are available to keep the most environmentally sensitive lands enrolled in CRP.

Just as importantly, we need a focused effort over the next few years to make sure that when sensitive land is taken—or kept—out of production and enrolled in CRP or another conservation program, it is enrolled in the right practice to achieve the desired conservation objectives. For example, if the most pressing conservation challenge in a particular watershed is the loss of nitrogen from farm fields to ground or surface water, we need a strategic effort to identify what types of filtering practices—including riparian buffers and wetlands specifically designed to remove nitrogen from water flowing from agricultural operations—need to go in what places in the watershed to solve the problem. This kind of targeted approach will also ensure that we can achieve important conservation objectives while minimizing the total amount of land removed from production.

The 2012 Farm Bill should also include policies that will help make it more economically attractive for owners and operators of land that is leaving CRP to manage that land in ways that are consistent with maintaining the existing cover (grasses or trees). The other conservation programs authorized through the farm bill can and should play an important role in accomplishing this, for example by offering incentives for owners and operators to transition land under an expiring CRP contract to a grazing operation.

Promote Partnerships

The 2008 Farm Bill included two new initiatives—the Cooperative Conservation Partnership Initiative (CCPI) and Agricultural Water Enhancement Program (AWEP)—designed to encourage partner-led projects that help producers address specific conservation priorities in particular geographies. These initiatives share three important features:

1. They leverage the resources of partners (including state and local government entities, producer groups and conservation organizations), bringing additional funding to the table to help producers in a project area to solve a particular resource challenge facing them. This promotes coordination of effort at the national, state and local level and helps improve the effectiveness of government spending to address state and local conservation priorities.

2. The initiatives encourage and rely on local leadership in focusing resources on achieving particular conservation outcomes in particular areas. Achieving such outcomes requires getting producers in the right places in a watershed or other specific geographic area implementing the right practices in sufficient numbers to actually make a difference.

3. CCPI and AWEP require partners to play a role in the monitoring and evaluation of project outcomes and to report on project results. The monitoring and evaluation provisions of these initiatives are important to advancing existing efforts by USDA and its partners to quantify the conservation benefits delivered by conservation practices and approaches. Quantifying the benefits from practices supported through Federal conservation programs is critical to ensuring that taxpayers are getting their money's worth from these programs.

One of the most important things Congress can do in the conservation title of the 2012 Farm Bill is to build upon these two initiatives by creating a larger, stronger partnership program. Some specific improvements we believe you should consider making in this new partnership program are:

- *Strengthen monitoring, evaluation, and reporting of the conservation outcomes achieved through partner-led projects.* Ensuring that state and local partners help track and report on the outcomes achieved through the projects in which they participate is critical to ensuring Federal dollars are well spent, so any new partnership program included in the 2012 Farm Bill should include strong monitoring, evaluation and reporting provisions. We suggest you consider providing more guidance in the farm bill regarding what kinds of monitoring and evaluation activities partners should carry out. Monitoring and evaluation should go beyond determining what practices were implemented on the ground. Monitoring and evaluation plans should include an assessment of the effectiveness of practices in affecting resource conditions and/or some link to ongoing monitoring of actual conditions, so that the conservation benefits delivered through partner-led projects can be quantified. Policymakers and stakeholders do need to recognize that there may be a delay between the time projects are implemented and when results can be seen, but we also need a better understanding of what we are gaining or can expect to gain in terms of real environmental progress if we are to maintain support for voluntary conservation programs over the long term.
- *Provide greater flexibility for NRCS to obligate funding for partner-led projects beyond a single fiscal year.* The current inability of NRCS to commit funding up front to multi-year, partner-led projects has made it more difficult for partners to enlist producer participation. Partners cannot count on each year's fund-

ing for producer contracts until it is obligated, so they cannot help the agency sign up producers continuously. In addition, each year the agency must decide how much of the funding allocated for the initiatives should be used to fully fund projects approved in previous years and how much should be used to approve new projects. Fixing this problem would provide greater flexibility to partners and more predictability for farmers while making implementation of partnership programs easier for the agency.

- *Consider whether the agency needs additional authority to use group contracts.* Because many projects approved through a partnership program may be focused on helping producers address a particular local, state or regional priority, these projects may require many producers in the project area to implement a single practice or a narrow set of practices on their land. This means many small individual contracts and a significant workload for NRCS field staff in the project area. In other cases, a project may require a single structure or set of structures that will benefit multiple producers, but which will be challenging to implement via individual contracts with each of them. While we support language continuing to ensure funding flows to producers, greater flexibility on the issue of whether that happens through individual producer contracts or some other mechanism is something that should be considered.
- *Maintain the authority and flexibility NRCS currently has to develop and launch additional landscape-scale initiatives.* Over the past few years, NRCS has launched several conservation initiatives that do not rely on partners but use farm bill conservation programs—particularly the Environmental Quality Incentives Program (EQIP) and Wildlife Habitat Incentives Program (WHIP)—to help producers successfully address resource challenges of regional and national importance, thereby reducing the need for future environmental regulations. The Sage Grouse Initiative is one of these initiatives. It represents a focused effort to improve populations of the bird, which is a candidate for listing under the Endangered Species Act, so that listing (and the regulatory requirements that come with it) will be unnecessary. NRCS engaged scientists to help design the initiative and ensure that EQIP and WHIP dollars were targeted to the places within the range of the bird where the right practices and activities could have the most significant positive impact. If this initiative and others like it are successful, the agency will have succeeded in helping producers solve wildlife conservation challenges in a way that also reduces conflict and uncertainty—a win-win. We believe maintaining flexibility for the agency to respond to similar circumstances in the future is important.

The policies included in the conservation title of the 2012 Farm Bill will determine to a significant extent whether conservation programs can be effective in helping the nation meet current and future conservation challenges, even as funding for these programs is reduced. EDF looks forward to working with Members and staff of this Committee in the weeks and months to come to ensure that the 2012 Farm Bill includes the strongest possible conservation title. Thank you again for the opportunity to testify.

The CHAIRMAN. Thank you, Ms. Hopper. As a veteran staffer of this Subcommittee, you did well to come in under the time limit too, so thank you.

Mr. Petty, I recognize you for 5 minutes, please.

STATEMENT OF DAVID D. PETTY, CATTLE PRODUCER, IOWA RIVER RANCH; MEMBER, ENVIRONMENTAL WORKING GROUP, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, ELDORA, IA

Mr. PETTY. Good morning, Mr. Chairman and Members of the Subcommittee. I am Dave Petty, a cattle producer from the Iowa River Ranch in Eldora, Iowa. I operate a commercial cow/calf herd and retain ownership of my calves through the feedlot side of my business. The other half of my operation consists of corn and soybean crops, and they are rotated on minimum till land. I am a member of the Iowa Cattlemen's Association, and the National Cattle and Beef Association.

America's cattle producers have a vested interest in keeping the land healthy and productive, the air and water clean, and the wildlife abundant, while maintaining diverse ecosystems. We are an innovative industry that utilizes the latest science to find more effective and efficient ways to raise the most wholesome, nutritious, and affordable beef in the world. According to a study by Washington State University, beef production today results in 16 percent less carbon emissions, takes 33 percent less land, and requires 12 percent less water than our industry did in 1977. Today we produce 13 percent more beef with 33 percent fewer cattle.

A fundamental cornerstone of our industry is being stewards of our nation's land and natural resources. As you can tell by my farm's name, we are located along the Iowa River, so I am constantly thinking about conserving our natural resources. This is a responsibility that our industry takes seriously, and by utilizing tools through the conservation program in the farm bill, our partnership with the government has strengthened.

NCBA's membership supports efforts to maintain continued support for working lands programs, while increasing their flexibility and effectiveness. We fully understand that money is limited, and we strongly support eliminating overlap and redundancy within programs.

One of the most popular programs utilized by cattle producers is EQIP. This voluntary financial cost-share program provides incentives to cattle producers for efforts to incorporate best management practices on their operations. We strongly support the continuation of EQIP programs and the provision from the 2008 Farm Bill that allocates 60 percent of EQIP funds to livestock.

Environmental regulation is a challenge for the livestock industry, and EQIP is a cost-share program producers may use to be in compliance. As farm bill discussions continue, we encourage you to support efforts to streamline the approval process and reduce backlogs in applications.

Cattle producers support working lands programs that keep land in production. Geographical differences dictate production systems throughout the United States. NCBA supports flexibility of conservation programs to meet the diversity of our industry from coast to coast.

Another program that is important to cattle producers is CRP. Our membership discourages enrollment in entire fields and farms to CRP, which makes it difficult for beginning or disadvantaged producers to enter into farming and ranching. NCBA's membership believes that in all instances of haying and grazing on lands enrolled in CRP, payment should be reduced by the value of the forage harvested or grazed. We also believe that managed grazing on CRP lands should be permitted during primary nesting seasons where the State Technical Advisory Committee recommends it under an approved plan.

NCBA does not support grazing on CRP lands as a part of a continuous grazing program, but we do support haying or grazing in order to maintain plant health and proper resource management with payment reductions. We encourage the Subcommittee to add more flexibility for grazing of CRP lands in the 2012 Farm Bill. Also, we urge the Subcommittee to consider flexibility for grazing and haying in CRP lands during natural disaster periods. By allowing emergency use of these lands for haying and grazing, affected livestock producers would be able to find grass to feed their cattle and stay in business.

When it comes to implementation of USDA's conservation program, it is imperative that we ensure adequate support and technical assistance to make these programs successful. Ranchers need a dependable and recognized source of technical assistance in order to meet rangeland conservation needs.

The conservation programs authorized by the farm bill are a great asset to cattle producers. We want to see them continued and refined to be more effective and efficient and protecting the environment in a sensible manner.

In closing, the beef industry not only plays a significant role in rural America, but also in the U.S. economy. We look forward to working with the Agriculture Committee to ensure that those of us in the beef business have the ability to do what we do best: produce the world's safest, most nutritious, abundant, and affordable beef products, all the while giving the consumers the choice they deserve. Please work with me as I work to feed the world and pass down my farm to my daughter.

We appreciate the opportunity to visit with you, and I look forward to answering any questions you may have. Thank you.

[The prepared statement of Mr. Petty follows:]

PREPARED STATEMENT OF DAVID D. PETTY, CATTLE PRODUCER, IOWA RIVER RANCH; MEMBER, ENVIRONMENTAL WORKING GROUP, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, ELDORA, IA

Mr. Chairman, Ranking Member Holden and Members of the Subcommittee, my name is David Petty and I am a cattle producer from the Iowa River Ranch in Eldora, Iowa. I was raised on a family farm and started my own diversified farm and cattle operation in 1973. I operate a commercial cow/calf herd and retain ownership of my calves through the feedlot side of my business. The other half of my operation consists of corn and soybean crops that are rotated on minimum-tilled land.

I am a member of the Iowa Cattlemen's Association and the National Cattlemen's Beef Association (NCBA). I have been a board member of the Iowa Environmental Protection Commission for 8 years and am currently serving as the Chairman. Also, I serve on NCBA's Environmental Stewardship Award Program's Committee and NCBA's Environmental Working Group. Last, I am a member of the government's Farm, Ranch and Rural Communities Federal Advisory Committee.

NCBA is the nation's oldest and largest trade association representing America's cattle producers as a strong and united voice in our nation's Capital. On behalf of NCBA's membership we appreciate the opportunity to share the importance of conservation programs and what they mean to cattlemen and cattlewomen throughout the country. The name of my farm is the Iowa River Ranch and as you can tell from the name my land runs for 4 continuous miles along the river. Taking care of our natural resources is a priority for cattle producers and for those of us located near waterways it becomes an even bigger part of my every day activities.

America's cattle producers are committed to raising the most wholesome, safest, nutritious and affordable beef products in the world. We have continually used science to find ways to produce more beef by using fewer natural resources. In fact, according to a study by Washington State University, compared to 1977, beef production today results 16.3 percent less carbon emissions; takes 33 percent less land; and requires 12 percent less water. All of this is achieved today, with 30 percent fewer beef cattle in the United States. With the global population growing exponentially, the demand for high quality and affordable beef will also continue to increase. U.S. cattlemen are ready to meet this challenge but in order to do that we must also discuss one of the fundamental cornerstones of our industry—being stewards of our nation's land and natural resources.

The livelihood of our industry is directly related to the health of the land, soil, air and water throughout the cattle industry. Conservation of our nation's natural resources is critical to the vitality of our industry. Cattlemen have a vested interest in keeping the land healthy and productive, water and air clean, wildlife abundant while maintaining diverse ecosystems. Mother Nature is the biggest challenge for cattle farmers and ranchers. Everyday our industry has to adapt to the weather conditions and natural disasters that threaten our natural resources. Additionally, urban encroachment and the misinterpretation and misapplication of environmental laws are challenges to cattlemen. It's imperative for our nation to conserve natural resources and cattle farmers and ranchers have a vested interest in conserving these resources. Our industry continually evaluates the latest science to help in decisions to further conserve these resources. It is our responsibility to operate as environmentally friendly as possible and utilizing tools through the conservation programs in the farm bill will help us in further strengthening a partnership with the government.

NCBA's policy on natural resources and conservation emphasizes the government's role to enhance an individual's right of free choice in land use, soil and water conservation, energy use and development utilizing working lands. All of these methods should be based on sound science and economics. State laws and individual private rights should be preeminent in the use of water and other natural resources. To accomplish this overall policy NCBA's membership supports efforts in the farm bill to:

1. Improve the attractiveness, accessibility and efficiency of existing NRCS programs to encourage voluntary participation by beef producers.

2. Maintain equitable funding for conservation programs important for beef producers and associated natural resources to ensure the livestock sector is not disproportionately impacted by budget limitations, budget reductions, or other program funding changes.

3. Federal conservation programs that provide flexibility to states for establishing statewide or regional priorities.

4. A preference to NRCS programs, such as the Environmental Quality Incentive Program, that enhance air, soil, and water quality, wildlife habitat, and grazing land health on all lands in production, and

5. A continuation of the voluntary NRCS Grassland Reserve Program and Farm and Ranchland Protection Program for the protection of working agricultural lands for future generations.

6. Continued funding for the Wetland Reserve Program (WRP) to meet increased demand for the Grazing Reserve Pilot Program within WRP. Also need to improve the effectiveness by allowing land owner-approved third parties to hold, enforce, and negotiate easements.

Within the conservation title of the farm bill, NCBA supports efforts to maintain continued support for working lands programs while increasing the effectiveness and flexibility of the programs. Knowing the limited resources that are available, NCBA would like to see overlap and redundancy in programs eliminated, and efficiency of programs improved. The way to get the best value out of these program dollars is to have the method of delivery as clear, concise, and quick as possible.

The Environmental Quality Incentive Program (EQIP) is the most popular and effective programs utilized among cattle producers. This voluntary financial cost-share program provides incentives to cattle producers for their environmental stewardship. USDA's Natural Resources Conservation Service (NRCS) assists producers in the development of long range conservation plans, and then offers incentives through cost sharing for the landowner to incorporate best management practices to accomplish the objectives of the plan. EQIP is the best tool cattlemen on the ground have to implement conservation practices that allow them to be in compliance with environmental regulations. NCBA's membership strongly supports the continuation of the EQIP program and the provision from the 2008 Farm Bill that dedicates sixty percent of EQIP funds to livestock. Environmental regulatory concerns continue to be a threat to our industry. Programs like EQIP allow producers the opportunity to work in a collaborative manner to comply with regulations. As Congress evaluates the EQIP program we would encourage the participation of custom operators to apply for contracts to the same degree as direct operators. We would also support efforts to streamline the application process to reduce the length of time it takes to approve an application.

One of the reasons EQIP is so popular among ranchers is the fact that it is a working-lands program. We believe that conservation programs that keep land in production and do not artificially limit its use are best for the ranchers and for reaching the goal of conserving our resources. Other working-lands programs that we support include the Wildlife Habitat Incentive Program (WHIP) and the Grassland Reserve Program (GRP). These programs help keep landscapes in tact, keep producers on the land, address resource concerns, and mitigate mounting environmental pressures. WHIP's cost-sharing and technical assistance provisions provide assistance to conservation-minded landowners who are unable to meet the specific eligibility requirements of other USDA conservation programs. A healthy wildlife population is generally a sign of a healthy ecosystem, which is conducive to a healthy cattle operation.

Also, NCBA supports continued funding for the voluntary Grassland Reserve Program (GRP) and Farm and Ranchland Protection Program to help conserve our nation's working grasslands. There is a tremendous interest in these programs from the ranching community. NCBA supports efforts to increase the flexibility of conservation programs for the continued participation from the cattle industry. Our membership also supports efforts to improve the program's effectiveness by allowing land owners the ability to choose third parties to hold, enforce and negotiate easements. This would allow land trusts to apply their expertise in perpetual easement management and administration, and enable GRP dollars to potentially be combined with dollars from other conservation programs. The Grassland Reserve Program has been very successful in helping landowners restore and protect grassland while maintaining the acres for grazing and haying.

The CRP is a program designed for the purposes of reducing soil erosion, protecting water quality, enhancing habitat for wildlife, and decreasing overuse of lands not suited to farming. These are worthy goals, but we believe the USDA should consider targeting the program to acres that would produce the most significant environmental benefits. Emphasis should be placed on enrolling buffer strips, grass waterways, and only the most environmentally sensitive portions of farms so that program dollars provide the most benefit to the public. We discourage the enrollment of entire fields or farms; a practice that we believe adversely affects local economies, makes it difficult for beginning or disadvantaged producers to enter farming and ranching, and may not provide the level of environmental benefits that we believe should be the focus of the program. NCBA's membership believes that in all instances of haying or grazing on lands enrolled in the CRP, continuous signup CRP, or CREP, the payment should be reduced by the value of the forage harvested or grazed. We also believe that managed grazing on CRP lands should be permitted during the primary nesting season where State Technical Advisory Committees recommend it under an approved plan.

While NCBA does not support grazing of CRP lands as part of a continuous grazing program, we do support haying and grazing to maintain plant health and proper resource management when determined by the NRCS, with reductions in payments whenever appropriate. We encourage the Committee to add more flexibility for grazing of CRP lands in the 2012 Farm Bill. Emergency use of CRP lands during a disaster declaration due to drought or fire on private or public rangelands is important to ranchers. By allowing emergency use of these lands for haying or grazing, affected livestock producers would be able to find grass to feed their cattle and able to stay in business. We support the continued allowance of CRP lands for this reason at the designation of the Secretary of Agriculture through state advisement and encourage the Committee to increase flexibility when entire states or regions are impacted by a natural disaster. Additionally, we support payment reductions when CRP lands are used in cases of disaster.

When it comes to the implementation of USDA's conservation programs, it is imperative that we ensure adequate support and technical assistance to make these programs successful. Resources must be allocated to maintain adequate NRCS personnel at the local level to provide the technical assistance necessary to implement successful rangeland conservation programs. Ranchers need a dependable and recognized source of technical assistance in order to meet rangeland conservation needs.

USDA's conservation programs are a great asset to cattle producers. We want to see them continued and refined to make them more producer-friendly and more effective in protecting the environment in a sensible manner. NCBA looks forward to working with the Committee to assure any revisions to the conservation programs continue to serve the needs of cattle producers across the country. Thank you for the opportunity to express NCBA's views with you here today.

The CHAIRMAN. Thank you, Mr. Petty. I thank all the witnesses for your testimony, and we will proceed with questioning. I will take the liberty of taking the first 5 minutes.

Mr. Petty, we will just start at that end of the table. Now you stated in your testimony that the National Cattlemen's Beef Association is generally opposed to enrolling entire fields or farms into

CRP. I agree that we need to target the lands most in need, and shouldn't encourage productive lands being taken out of agriculture. How can we discourage enrollment of entire fields and farms, and do you have an opinion on whether the Senate draft being marked up at this moment addresses this issue?

Mr. PETTY. It is trying to get the most sensitive land in CRP is the goal here. A lot of times—and I have some of my own where in the beginning when CRP was put in, you were able to put the whole field in which makes—if you had enough growing ground, but every piece of ground has some real productive ground, so maybe that is being split out of there now. As I have reenrolled my CRP, I have either reenrolled it or kept it all in grasslands and converted it into pasture. I have not had the chance to look at the Senate bill, so I don't have a comment on that.

The CHAIRMAN. Okay. I appreciate that.

Ms. Hopper, what conservation program do you believe gets the most environmental benefit for the taxpayers' dollar, that return on investment?

Ms. HOPPER. I think that all of the programs—the programs that we have now all serve different functions. Some are focused on land retirement, the creation of wetland habitat, taking sensitive lands out of production. Some are focused on improving environmental benefits through practices on working lands. So it is a little bit of an apples and oranges comparison, but——

The CHAIRMAN. It is, but what is the most attractive apple or orange out there?

Ms. HOPPER. Okay. Well the most attractive apple or orange for me are these cooperative conservation approaches.

The CHAIRMAN. Partnerships.

Ms. HOPPER. Yes. So the two new initiatives included in the last farm bill were the Cooperative Conservation Partnership Initiative and Agricultural Water Enhancement Program, and both of those leverage resources from partners. No money goes to partners under the—all the money goes to producers to implement conservation on the ground. But by bringing partners to the table, you are leveraging resources from those partners, and you are helping to focus resources in a particular area, and usually it is a state or local partner so they have identified the biggest conservation priority in their area. They already have relationships, they are working on the ground. They want to solve a particular problem, and I think that is a real good way to focus resources with local leadership, and the provisions include monitoring evaluation components. The partner has to help with that so we then get reporting on results, which is really important to spending taxpayer dollars most efficiently.

The CHAIRMAN. Brings in the accountability part.

Ms. HOPPER. Yes.

The CHAIRMAN. Thank you.

Mr. Homan, you discussed the importance of conservation programs with regard to the Chesapeake Bay watershed. What do you think the cost of complying with the TMDL will be on Pennsylvania farmers, and what role does conservation play, obviously, in the Commonwealth?

Mr. HOMAN. I really can't make a quote on costs. I am not up to date on all the statistics on that part, but every ounce of participation that we can get on the farmland is definitely a big plus to the end result, and that is the waters of the Chesapeake. The local eyes on the situation are generally the general public driving by, and their concerns or not being knowledgeable of the practices that are taking place, and simply wondering what effect they are going to be. The end result is when you see the clean productive water coming off the lands that normally were in that surprising rain in the winter months, chocolate brown.

The CHAIRMAN. Speaking of local eyes, what is your impression with the conservation investments that we have done? I know you have been very involved with the agriculture community in the Centre County area. What is your impression on water quality in our local watersheds, those immediate to your farmlands and most other farmlands in Centre County? How are we doing?

Mr. HOMAN. I feel we are doing an excellent job in moving forward to getting more people involved in the areas of even the simple practices of no-till, but sometimes to move in that direction, it costs a farmer an investment in a different piece of equipment which doesn't come cheap. But I am seeing good results in every area that we are emphasizing these conservation practices and taking advantage of the technical assistance being provided through NRCS to implement these projects and implement them correctly.

The CHAIRMAN. All right. Well I am glad to hear that, because I mean, that is my impression from local watersheds as well. We take a lot of pride in them and we know if our local watersheds are clean and looking good that are adjacent and running through our farmlands, the Chesapeake has got to be getting better.

Mr. HOMAN. Yes.

The CHAIRMAN. Mr. Gordon, you mentioned NGFA supports efforts by Congress and the Administration to reduce, streamline, and better rationalize the plethora of existing conservation programs to make them more efficient, more effective. I have heard that used in a lot of testimony today. After seeing the Senate's mark, what further recommendations, if any, would you give to this Committee?

Mr. GORDON. Well, I do think the Senate bill does move it in the right direction. I believe the direction this Committee had made through Chairman Lucas and Ranking Member Peterson also certainly did that by consolidating programs, trying to rationalize them within groupings moving forward. So we do think both of those initiatives are movements in the right direction.

The CHAIRMAN. Great, thank you.

Mr. Bell, you stated that the EQIP conservation practices are not marketed to specialty crop producers equitably across the country. Why do you believe this is so?

Mr. BELL. Well, we—the way the Specialty Crop Farm Bill Alliance works is we have working groups that represent the diversity of our very diverse sector across this country look at the conservation title. And we had multiple conference call meetings last year in preparation for the farm bill coming up, and it was very interesting when we talked about the specifics of the programs, that it was real clear that in some counties, some water conservation districts in some parts of the country, we weren't getting great service from the—some water conservation districts and NRCS. Then, in other parts of the country, there was very little focus on that ag sector. We really don't know why, whether it is a question of resources or inertia, staff is more comfortable working in a row crop system, or whatever the dynamic is. The only way that we could think to maybe raise the consciousness with the agency is to ask Congress to make sure they are focusing on that area.

We understand it is a challenge with the diversity of U.S. agriculture across the country. You know, you ask staff to wear many hats and have a whole lot of expertise, but we do feel that in some parts of the country, specialty crop farmers are not focused on by the conservation programs.

The CHAIRMAN. Thank you. I now recognize Mr. Gibbs, from Ohio, for 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman. I want to go back to the first question I asked the first panel. Mr. Gordon, in your testimony, you talk about the CRP land, and if I am looking at—doing it right, 16 to 17 million acres, in your testimony shouldn't be reenrolled or shouldn't be in CRP, and you also went on to talk about 8½ million acres are—is probably land that shouldn't be in there that is concentrated in certain states. I guess the first part of my question is, is that correct that 15 or 17 million acres shouldn't be in CRP that is currently in CRP?

Mr. GORDON. No. Our testimony really focuses on prime farmland as USDA defines that, and the most recent data that we are able to access—and this is one of the requests that we have of the Committee is to have USDA be more transparent in updating data on enrollments of different land classes that are in the CRP. But it indicates back in 2007 there were about 8.7 million acres of prime farmland enrolled in the CRP. About 7.1 million of those were in the highest land classes that—and so that is—we have a research project underway through our National Grain and Feed Foundation right now that is coming at this from the standpoint of let us look at the kinds of acres that are in CRP right now and not name a number as to how low the CRP should go. Let us rationally look at the kinds of acres that can be cropped and in an environmentally sustainable way to meet growing world food demand, to meet budget——

Mr. GIBBS. I know we have to find a balance, because we got——

Mr. GORDON. It is about 8.7 million acres, and about 8.5 million of those are in 30 states that have the highest CRP enrollment.

Mr. GIBBS. Well that is—the second part of my question is—and that talks about this 25 percent limit, whether you can exceed, and I don't know if that is part of the problem that is making a higher number of states. I am sure we have all of these acres inventoried, so we have to know what the maximum amount in each state should be in sign up. Is that a correct assumption?

Mr. GORDON. Well, that is an assumption that we should have, but again, these data aren't very transparent right now as to which counties are exceeding that 25 percent number. Early on in the CRP, there were a lot of counties that did exceed that CRP 25 percent cap, and it really did devastate some rural communities. It took a lot of rural businesses out, and so that is a fact that we need to have more data on.

Mr. GIBBS. Okay, but that is, Mr. Chairman, that is an interesting point because we have to make sure that land that is sensitive, environmentally fragile, and also protect our watersheds. We are protecting that with our limited amount of dollars and it seems to make sense that we ought to know what—how much land in each state would fall in that category and what is in the CRP and make those adjustments. Of course, there has been more flexibility of states, but there have to be some parameters set, so I thought that was interesting. I couldn't get a straight answer so much from the first panel on that, other than they need more flexibility, and I know there is always this push/pull between livestock producers and grain producers, and we have to find some type of balance there. But our main incentive now should be to protect those sensitive lands where back in 1985, the main incentive was a little more toward the production side, and in the 1995 Farm Bill it probably starting moving that way.

Mr. GORDON. Right. That is what we concur.

Mr. GIBBS. And Mr. Petty, Cowman's—you have the National Cattlemen's Association, right? Yes. So land that is in CRP that maybe is not as sensitive—maybe we ought to have two classes when you are talking about the rents or something—I don't know—that can be pastured but still maybe should never be farmed or tilled. I think you are moving that way. That is what I got out of your testimony. Is that right?

Mr. PETTY. Well that is a really difficult thing when you look at the land rental rates, because even though today CRP rates are much higher than they were 10 years ago, they have fallen behind significantly from today's cash rents in the adjoining fields. So it is end of the day economics usually determines whether people are going to pull that in—leave it in or pull it out, and——

Mr. GIBBS. Well this goes back to my point, I guess. We are going to see more land come out of CRP, when we have $13 soybeans and $5 to $8 corn, and economics are going to drive that, so that is why it is more important that we actually identify those lands with the limited dollars that we have to protect.

Mr. PETTY. Yes. Now into the 25 percent, I am quite certain the 25 percent is a limit per county, any land within a county, so that—those numbers would be very accessible within a county office. You know, they have to keep track of that and not go above it, so those numbers could be put together pretty easily on a county basis. You know, we just believe that the most sensitive grounds should be qualified under EBI, and then—and not the other ground.

Mr. GIBBS. Mr. Chairman, I am out of time. Just to finish up, I just want to request of the Committee or request of the USDA or NRCS those numbers. I think that would be helpful when we do the bill. Thank you.

The CHAIRMAN. Without objection.

[The information referred to is located on p. 1789.]

I now recognize the gentlelady from Alabama, Mrs. Roby, for 5 minutes of questioning.

Mrs. ROBY. Thank you, Mr. Chairman, and I appreciate all of you on the panel being here.

Mr. Gordon, to go back to the questioning of my colleague just a minute ago and expand on some of the questions that he has asked. As you know, we have a bill and you have already addressed that earlier, and I appreciate that, that deals with CRP and in the specific classes of property that we believe are creating an issue of competition amongst our farmers that lease property—and there are several issues that play into this, but most importantly going back to the 25 percent cap that was just mentioned. How does this happen? How do we got to a point—I mean, in Alabama we have a disproportionate number of acres, particularly even in my 16 county district. How does it happen that this cap is exceeded?

Mr. GORDON. Well, there was authorization in the farm bill in the 1985 statute that allowed counties to exceed the 25 percent limit, and it was amended—initially it was the county committee that could make those sorts of decisions, and then it was amended, I believe, in the 1995 Farm Bill, 1996 Farm Bill that would require the county FSA committee to certify that—or the county—it is actually the county commission or the county board to certify that doing so would not cause economic benefits to the county. And that became somewhat of a political conversation that would occur, so—but where those waivers were granted, even though we think—and in our testimony we cite the comments of one county commissioner in Spokane, Washington, who said that CRP—because they exceeded those 25 percent caps in some counties in Washington State have really devastated those rural towns, so——

Mrs. ROBY. Right. Well, let us talk about, then, the rental rates again. I mean, going back to the previous question just to delve a little bit deeper. In these counties, the rental rate in some instances is really close to the CRP rate, and more land is going into CRP and it is harder for farmers to compete in renting the land. Do we know if those higher rates have caused these inflated rental rates?

Mr. GORDON. Congresswoman Roby, we currently have—and I appreciate Mr. Peterson's question and comments earlier on this question as well. We currently, through our foundation, are doing an analysis of the rental rates, the CRP rental rates on a county and state by state basis, and in some states, Mr. Peterson is exactly right, that CRP rental rate is dramatically lower than the county rate. In other states, Texas is an example, the CRP rate in some counties and areas within the state exceed the local land rental rate, so it is not a uniform system, and I apologize if our testimony would lead you to believe that we wanted that nationwide because it is not—it is more of a regional, state by state basis.

Mrs. ROBY. Sir, and if you travel around Alabama's 2nd District, all you have to do is sit down with some of our farmers and you will find out very quickly that Alabama has a different set of problems.

Mr. GORDON. Well we do expect results of that soon, and we will——

Mrs. ROBY. Well I look forward to that. I look forward to that, because that certainly will play into this analysis from a legislative perspective.

How does the USDA determine which acres are accepted?

Mr. GORDON. Well, that is one of the—kind of the moving targets, because within each sign up they will look at the Environmental Benefits Index and change that from sign up to sign up. Now they have announced with this current general sign up that it will be based on the same criteria used last time, but that has been a flexible kind of a marker that has changed from sign up to sign up, and that is one of the, again, transparency issues we think needs to be clarified a little bit.

Mrs. ROBY. Do you have ideas about how this specific program can be modified so we can help our young and beginning farmers to access the productive land?

Mr. GORDON. Thanks. We do think the TIP program is a tremendous program and a good opportunity to invest monies to allow both beginning farmers and socially disadvantaged farmers to get into the business of agriculture. My understanding is it is capped at about $25 million a year right now, and meets that cap every year. There is pent up demand for use of that program. So that is one area that we do recommend that perhaps some additional funding might be appropriate.

Mrs. ROBY. And I was going to ask that question as well about your suggestion for a specific cap, but I heard you in your answer to Mr. Gibbs that that is not actually the approach that you are taking. You want to have this analysis county by county or state by state in order to determine how this program has affected——

Mr. GORDON. Really looking at the environmental classes of the land and what makes sense to bring out of the CRP in a rational way.

Mrs. ROBY. Sure. And my time has expired, and I would like to submit some other questions for the record.

The CHAIRMAN. Without objection. I would ask that any questions submitted by Members of the Committee, that if we get a prompt response back, answers in response to that.

Now I thank the gentlelady and now recognize the Ranking Member of the full Committee.

Mr. PETERSON. Thank you, Mr. Chairman. I apologize for having to miss—I feel like I am coming in out of left field here, because I haven't heard the discussion. I had all these meetings set up before I knew I was doing this.

At the time we started CRP it was not a conservation program, and we made a lot of progress. I mean, the EBI, frankly if they are using what they used last year, it is by and large getting the land that should be in, in, and the land that shouldn't be in, out. It is doing a pretty good job, and they have tightened up on that criteria every year almost. I had a lot of guys this last year in my part of the world didn't get into the program because the EBI scores were so high they couldn't meet them. You know, even the guys that agreed to plow up the CRP and plant the mixture they wanted and all that stuff, and there are some issues there as well.

But one of the issues I had that I was wondering about, Mr. Gordon, is in your report here you are talking about this Land Capability Class I and II, which is kind of a broad category that was created back in the 1950s or 1960s, from what I understand, and I don't know if it is applicable to what we are trying to do with

CRP or not. But NRCS doesn't use this anymore. I mean, I don't know anybody using this classification, so I guess I am curious. Why are you using that when nobody—when everybody else has moved away from it?

Mr. GORDON. Thank you, Mr. Peterson. We do understand that there are—and I would like to expand in my comments for the record, if I could on that to do a little more research on that, but our understanding is that they are still trying to keep some data based along those lines. They haven't been publicizing those, as you note, but it clearly was a way that Soil Conservation Service and others used at that time to look at where is—what is the best quality farmland we have in the United States.

And so the reason we are trying to use that is to focus again on the productive farmland that we think if the CRP is to be downsized in the matter which it apparently will occur, that that is maybe one approach to take to looking at making sure we get the right acres. But we will provide more for the record on that, and I appreciate the question.

[The information referred to is located on p. 1792.]

Mr. PETERSON. We are not able to correlate it in any way. We have looked at it, tried to figure out and make some sense out of it, and I understand it is being used in a broader level for analysis, but I am not sure it is getting us—there are places in this country where some questionable land that has gotten into the CRP, and frankly have been changes by this Committee that have allowed people to do things that I don't personally agree with, that allowed land into the CRP. I don't know why we have it in there. I have been in those parts of the world. It looks to me like that is land that just is no good for anything else, and I don't think it is any good for wildlife. I am not sure. I guess it is just a way to get those people some money or something. And so I, for one, would be perfectly willing to tighten up on some of these practices in Alabama and some of these other places, Texas, where we have a huge amount of land in West Texas and New Mexico and Colorado and southeast Kansas that if you look at where the concentration is and if you go look at some of that land, I don't know what it is providing. I just hope that we can work together, because we don't want to destroy—I mean, there is a lot of land that should not be farmed. And as I said earlier, I am very interested in the wildlife aspects to this, and there is no way you are ever going to be able to buy enough land with the Fish and Wildlife Service and the state DNRs that is going to provide what CRP provides. You know, you get them—they go buy a 40 acre tract from Fish and Wildlife. They have a wetland and whatever. There isn't a duck or a pheasant on that tract, because all around it is farmland. Every predator in the area goes to that, and if they try to breed, they get wiped out. What CRP does is it spreads this out. When you have 160 acres or a section, the predators can't—that is how it used to be, and that is why wildlife has come back. And so we need to keep that in the mix. I am all for the continuous and the buffers and all that sort of thing, but we don't want to throw the baby out with the bathwater.

And the reason I am so passionate about this, when I was a kid, I used to shoot my limit of ducks every morning and I would shoot my limit of pheasants every afternoon. We had tremendous wildlife where I grew up. That was when we had the Soil Bank. That is how old I am. And the Soil Bank went away. All that land got plowed up, put into production. There isn't a duck or a pheasant within 30 miles of where I grew up, and we don't want to get back into that. It will never come back. So we want to make sure we keep some diversity out there on the land, and hopefully we can work together to do that.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the Ranking Member, and actually before we adjourn, let us see if there are any additional closing remarks you would like to make.

Mr. PETERSON. You have given up on me.

The CHAIRMAN. I think you did it, that is what it sounded like to me.

I want to just take the opportunity to thank all the witnesses, both panels who were here. I though we had some very good perspectives that were brought to a very important issue as we prepare to get this farm bill hopefully over the finish line in 2012. We all know we need to do that. You know, as I took note of this panel and the last panel, there seems to be a consensus, at least from my perspective. Here are some of the things I heard: obviously a consensus on the need as we approach the 2012 Farm Bill, a need for recognition of the fiscal restraints as a country that we are under and a need for fiscal responsibility as we go forth in defining agriculture policy, which is what the farm bill is so important for. But I heard words like certainly the need for flexibility, the need to build in avenues for local direction and input in the decisions regarding conservation. Obviously the word *efficiency* came up over and over again. The fact that conservation dollars are well-leveraged through partnerships and the importance of those partnerships, and the importance of that leverage, the return on investment that conservation should provide in terms of the outcomes for the taxpayer investment. The importance of technical assistance and to move towards—get that rebalance so we have those boots on the ground, and finally, what I heard referenced is it is incredibly important to being able to make sure that America always continues to have the most affordable, highest quality, and safest food supply, in that succession, with our family farms, making sure we keep family farms in operation.

So I very much want to thank everybody for their participation, and Members for their involvement today. Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member.

This hearing of the Subcommittee on Conservation, Energy, and Forestry is adjourned.

[Whereupon, at 11:58 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

1774

SUBMITTED STATEMENT BY THOMAS A. HAMMER, PRESIDENT, NATIONAL OILSEED PROCESSORS ASSOCIATION

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee, thank you for conducting this hearing on the conservation provisions of the 2012 Farm Bill.

I am Tom Hammer, President of the National Oilseed Processors Association (NOPA), which represents the U.S. soybean, canola, flaxseed, sunflower seed, and safflower seed processing industries. NOPA's 12 member companies crush approximately 95 percent of all soybeans processed in the United States. NOPA member companies process more than 1.6 billion bushels of oilseeds annually at 61 plants in 19 states located throughout the country.

The competition for land is fierce between food, fiber, fuel, and wildlife and the environment; and governments around the world should balance and embrace resource protection measures and productivity enhancements.

In the United States, 30 million acres of farmland have been rented from farmers by the USDA through the Conservation Reserve Program (CRP) to control surplus production and protect the environment. These acres are now being viewed as a source of land to relieve the pressure from food and fuel demands. Environmental and wildlife advocates are caught in the middle.

If we step back, we can see that food, fiber, fuel and good stewardship practices are not mutually exclusive. Modern agriculture can provide adequate food, fiber, energy and better wildlife habitat on a sustainable basis, but some policy adjustments are needed in the 2012 Farm Bill.

NOPA believes that the fundamental objectives of Federal commodity supports and conservation programs must take into account the dramatic shifts that have taken place in global agriculture markets. Outdated supply control programs must be redesigned to provide market-driven and risk management tools to our farmers and ranchers. CRP is a prime example; in 1985 Congress did not anticipate that land would be rented in virtual perpetuity. Ten years was viewed as sufficient time for grain demand to rebound. The long-term 10 year CRP contract seemed like a more economical and environmentally sound method of idling acres than annual acreage set-aside or paid diversions. Today, in some cases, many of the 10 year contracts have been rented for 20 years, going on 30 years.

Federal support and environmental programs must be flexible to reflect the challenges farmers and ranchers face in the 21st century. NOPA believes now is the time for Congress to take bold steps to substantially reduce the current CRP cap of 32 million to 15 million acres and expedite their release,. Acres are needed now. Congress, has the opportunity to implement meaningful reforms, and to focus the very scarce conservation dollars on working farmlands—idling only the truly environmentally sensitive acres such as filter strips along waterways and sensitive border strips. Policies that support the idling of whole-fields and whole farms should end because they fail to recognize the fact that farming practices have changed dramatically since CRP was established 25 years ago. Advancements in insect-resistant and herbicide-tolerant seed varieties, conservation and no-till farming, and other agronomic practices have made it possible to farm more U.S. acreage in environmentally sustainable manner. Bringing land back into production will take time. So, now is the time to release the maximum amount of high quality arable and tillable land in the CRP to meet the growing need of a hungry world and increase the profitability of rural communities. This opportunity must not be lost.

Global corn supplies are slated to reach a *39 year low* stocks-to-use ratio by August 2012. Any significant summer weather adversity to U.S. corn growing conditions which threatens yields will further tighten balance sheets sending prices even higher. Chinese import demand for corn is ramping higher directly into this untenable situation. Food consumers and livestock feeders will bear the brunt of any further price advances.

World soybean production is logging the *largest ever* year-on-year decline, estimated at 29 million MT, (roughly 11%) due to production shortfalls in the U.S. last fall and in South America this spring. U.S. soybean carryover supplies for August 2012 will certainly post near-record, if not record shortages prior to harvest.

World corn and soybean demand are out-stripping production capabilities on currently utilized acreage, given any significant weather adversity which is for all intents, a given.

FAO predicts world grain production will increase one percent this year to a record 2.4 billion tons, keeping global supplies stable. The world stocks-to-use ratio should remain about the same at just under 22 percent, FAO says. Wheat production is expected to be off 3.6 percent, due to smaller harvests in Ukraine, Kazakhstan, China, Morocco and Europe, but world corn production should rise 3.7

percent, thanks to U.S. plantings. FAO sees the oilseed market tightening significantly, with the stocks-to-use ratio falling from 18.7 percent to 13.2 percent. Soybean production is projected to fall ten percent, which would be one of the steepest declines on record. Total oilseed production is expected to fall nearly four percent.

With annual Federal deficits of more than $1 trillion projected as far as the eye can see and a Federal debt approaching $16 trillion the U.S. can no longer afford to spend on non-essentials—retiring crop land that can be farmed with modern technology without degrading the environment is such a non-essential. Instead, put the crop land back into production where it is earning tax revenue for the Federal Government, not costing the Federal Government. Perhaps Congress should consider something as simple as spending limitation on CRP. Such a limitation would focus on creating a more environmentally efficient program by assuring that the most fragile acres are enrolled, Congress would have to set a number. Currently CRP costs approximately $1.9 billion annually. NOPA recommends a spending cap of $1 billion. on CRP.

NOPA believes debate and policy discussions provide Congress with the best opportunity to reduce the size and scope of CRP from the current cap of 32 million acres to a more environmentally and fiscally responsible cap of 15 million acres.

The Conservation Reserve Program—Time for Reform

- Idling productive farmland in the CRP limits agriculture's capacity to expand production to meet the strong demand for additional feed grains for livestock, fuel, and export growth.

Population Growth

- The United Nations Population Division estimates that world population will reach 9.3 billion by 2050. Developing countries economic and population growth will lead to increased food demand—a growing middle class, increased urbanization, and diet diversification, requiring a 70 percent increase in global food production.
- The "Middle Class" outside the U.S. is expected to double by 2020—to one billion households.

Global Demand Growth

- Drought in South America is creating a serious deficit in the global soybean supply that could take years to erase. World soybean production in 2011/12 is forecast to be 4.9 million metric tons lower this month to 240.2 million. Crop failures in the region are expected to reduce global exports of soybeans by four percent this year to 89 million tons. The global stocks carryout could also fall by 20 percent this year to 55.5 million tons.

Income Stability

- In light of the poor crop situation in South America, U.S. cash soybean prices surged again in March 2012—rising nearly $1 per bushel. The price rally gathered even more momentum after the March 30 planting intentions report, which indicated an unexpectedly low U.S. acreage for soybeans this year.
- Prices almost certainly will set an all-time high in 2011/12. The U.S. season-average farm price was forecast up to $12.00–$12.50 this month from $11.40–$12.60 last month.
- Agricultural crop prices are at some of their highest levels and prices are expected to remain high for the next 10 years, red meat and poultry prices are also expected to remain high for the next 10 years. U.S. net farm income is at its highest level. U.S. agricultural exports in FY 2011 reached a record $137.4 billion and are projected to reach $168 billion by 2021.

Crop Production—CRP Ranked Fourth

- Based on the USDA's April 2012 World Supply and Demand Estimates, the United States is expected to plant 95.9 million acres of corn, 73.9 million acres of soybeans, 55.9 million acres of wheat, 13.2 million acres of cotton, 6 million acres of sorghum and 2.62 million acres of rice.
- The 2008 Farm Bill authorized up to 32 million acres in the CRP. The current CRP has approximately 30 million acres of land that is currently idled. That makes CRP the fourth largest crop—equaling all the cotton, rice, and sorghum planted on an annual basis.

Land Constraints

- The U.S. faces natural resource constraints—the ability to expand productive land for food, feed, and fuel.

- The most recent Natural Resources Inventory (NRI) conducted by USDA was done in 2007. Nationally, 202.5 million acres of prime farmland are being cropped. Urban and rural sprawl is eating away millions of productive farmland acres annually.
- Global expansion due to global biofuel's production is boosting demand for feed stocks, such as grains and vegetable oils (South American continues to grow and expand clearing rainforests/pasture and into row crop production). The U.S. has limited availability of additional acreage for cropland, and much of it is more environmental sensitive than the land that is locked in CRP.

Conservation Reserve Program of 1985—Times and Circumstances Have Changed

Taxpayers spend approximately $1.9 billion on CRP rental payments a year. Can these dollars be better targeted to meet environmental, wildlife and the need to meet food, feed, and fuel needs? NOPA believes the answer is YES. The current budget deficit should cause Congress to lower the CRP acreage cap. Other programmatic decisions should also be debated, such as: adequacy of feed and forage supplies, rental rates, allowed uses of the land, whole farm and whole field enrollments, and rankings under the Environmental Benefits Index, to name a few.

NOPA Encourages Congress to take bold steps to provide:

- 15 million acre acreage cap;
- $1 billion cap on expenditures;
- Penalty free early out; and
- No new acres permitted into program until supply and demand estimates and stocks-to-use ratios don't show near record shortages.

The 2008 Farm Bill authorized the CRP at 32 million acres. Over the next 10 years, over 25 million acres will expire, providing an opportunity to evaluate enrollments.

Advances in conservation technology such as seed, biotechnology enhancements, tillage, and other agronomic practices have resulted in more U.S. acreage being environmentally sustainable—a dramatic change from when CRP was first implemented in the mid-1980s.

It is time to move away from idling of productive lands and use of a reserve to restrict gain supply and boost prices and focus on protecting the most environmentally sensitive land or fragile lands, thereby enhancing the ability of U.S. farmers and ranchers to meet the world's growing demand for food, feed, biofuels and exports. It is important that sound conservation practices be adopted for those exiting acres, with an opportunity for landowners to enroll them in working lands programs.

As stated by Randy Gordon, Acting President, National Grain and Feed Association (NGFA), the NGFA Foundation is in the midst of a research project that is evaluating the CRP. The NGFA Foundation anticipates that additional recommendations will come from the results of that study, projected to be completed in late May 2012.

Based upon the findings thus far, NOPA supports NGFA's recommendations that the following legislative changes be included in the 2012 Farm Bill to reform the CRP and facilitate the return of idled land that can be farmed in an environmentally sustainable way:

- Reduce the current 32 million acre maximum CRP cap significantly. At a minimum, Land Capability Classes I and II (approximately 7.1 million acres) should be prohibited from future enrollments and re-enrollments. A total of more than 8.7 million farmland acres (including some Land Capability Class III acres) of "prime farmland" were enrolled in CRP as of 2007 (the most current data available from National Recourse Conservation Service (NRCS)). In the 30 states with the greatest CRP enrollments, approximately 8.5 million acres are considered to be prime farmland. Such good quality land currently idled in the CRP is highly concentrated in several major grain-production states—Kansas, North Dakota, Minnesota, Missouri, Oklahoma, and Texas. This land can be can be farmed in an environmentally sustainable way to meet growing food and feed demands.
- Eliminate the discretion for USDA to exceed the 25 percent limit on CRP enrollments in individual counties because of the economic damage such enrollments have had on rural communities. There are indications that USDA may be using outdated cultivated cropland data in some counties when determining the 25 percent cap, Congress should require the Department to recalculate. Further,

recommend that Congress should require USDA to reserve within the 25 percent county limit at least a five percent allowance for acres enrolled in the wetlands reserve and continuous sign-up process.

- Congress should direct that USDA transition to a smaller CRP by reducing the number of "prime farmland" acres enrolled. In managing this transition, require USDA to offer penalty-free early outs of Land Capability Classes I, II and III enrolled in CRP, with producers doing so required to implement prudent conservation practices on such lands. USDA should carefully manage any re-enrollment of acres expiring on September 30, 2012, in a similar manner.
- Congress should include legislative language that would restrict whole-field and whole-farm enrollments in the CRP by requiring such land to meet a more stringent Environmental Benefits Index (EBI) scoring threshold than partial-field enrollments. During the early years of CRP enrollments, whole farms and whole fields were enrolled, which brought in land of varying quality.
- Congress should allocate conservation funding for the Transition Incentives Program, currently authorized at $25 million, for transitioning expired CRP acreage from retired or retiring landowners to beginning or socially disadvantaged farmers.

In addition, NOPA encourages Congress to include as part of the farm bill process the following directives to USDA in its implementation and administration of the CRP in the future:

- Direct USDA's Farm Service Agency and NRCS to compile a report within 1 year of enactment, and updated biannually thereafter, to bring increased transparency to how the CRP is being managed. Such a report should include: (1) the quantity of acreage enrolled in CRP by Land Capability Class; (2) a compilation of such Land Capability Class acreage by county; and (3) the identity of counties that are at or near the 25 percent enrollment cap. Also recommend that USDA be required to post this report on its website. This data will increase transparency, and enable USDA and stakeholders to better analyze the prudent management of the CRP going forward.
- Consider either freezing CRP rental rates for 3 to 5 years or implementing a percentage-based limit on rental rates paid for CRP land compared to average county rental rates.
- Encourage increased flexibility for haying and grazing of CRP when states or regions are impacted by a natural disaster. By allowing use of these lands for haying and grazing, affected livestock producers may be in a better position to feed livestock and stay in business and not forced to liquidate their livestock.
- Accelerate the process of converting price and income support programs to land stewardship and wildlife habitat programs on working lands.
- Limit the number of CRP general sign-ups offered. In addition NOPA believes USDA should not accept any acres from the 2012 General CRP sign up that just concluded. We
- Further, the time is very short, but an emergency early-out could still be offered for 2012 to address supply concerns.

Conclusion

NOPA believes that it is time to move away from idling of productive land and focus on protecting the most environmentally sensitive land or fragile lands, thereby enhancing the ability of U.S. farmers and ranchers to produce to meet the world's growing demand for food, feed, biofuels and exports. NOPA also believes it is important that sound conservation practices be adopted for those exiting acres with an opportunity for landowners to enroll them in working lands programs.

If we step back, we can see that food, fuel and wildlife are not mutually exclusive. Modern agriculture can provide adequate food, some energy and better wildlife habitat on a sustainable basis but some policy adjustments are needed in the next farm bill.

Mr. Chairman, thank you for the opportunity to share our views on the conservation title. NOPA looks forward to working with the Committee as it develops the 2012 Farm Bill.

SUBMITTED STATEMENT BY DAN SEBERT, EXECUTIVE DIRECTOR, NATIONAL WATERSHED COALITION

Chairman Lucas and Members of the House Agriculture Committee, I am providing these comments as a summary of the interests and concerns of local watershed project sponsors across the country. I live and work in both Lincoln and Pawnee Counties in Oklahoma. I'm an agricultural producer, Chairman of the Lincoln County Conservation District, a local watershed project sponsor and Executive Director of the National Watershed Coalition. I offer the comments below representing the National Watershed Coalition. On behalf of the Coalition we appreciate the opportunity to provide comments during the House farm bill field and D.C. hearing process.

My home county has six USDA-assisted watershed projects that include 63 flood control dams. These dams provide over $10 million in annual benefits in flood damage reduction, soil erosion control, water supply, recreation and fish and wildlife habitat. The dams benefit more than 1,240 farms and ranches, protect 100 bridges and hundreds of miles of roads. Five of the lakes formed by Watershed Program dams provide the sole source of water for more than 16,000 residents in five Lincoln County communities. These and thousands of other projects across the nation are important to the land and water resources of this nation.

Principal to my perspective on this program is the notion that it is a federally assisted partnership. State and local entities must be full and equal partners in shaping the future, just as they were when the legacy of this program was created. The Watershed Program works successfully where other Federal water resource programs will not. The program is right sized for local landscapes, insuring conservation of natural resources, prudent water resource management and securing both environmental and economic benefits. This success can be credited to local watershed sponsors, who make decisions as close to the on-the-ground issues as possible.

While the watershed program has its own authorizing legislation, the current farm bill has served as an important piece of legislation to drive the rehabilitation of aging dams built under the USDA Small Watershed Program. The NWC believes that the current farm bill process presents a continuing important opportunity for Congress to extend the public benefits derived from work performed under the Watershed Program.

If we analyze USDA Watershed Program information and use the farm bill process as a timeline, we see an interesting and perhaps alarming trend. When the rehabilitation amendments were passed in the year 2000 and a farm bill was being developed less than 50 of the 11,000 watershed program dams in the nation were more than 50 years old. The average age of the 11,000 dams was 34 years. By the end of 2011, nearly ⅕ of the 11,000 watershed dams in the nation had reached the end of their 50 year planned service life; and by 2016 almost ⅔ of the watershed dams will reach this milestone. Congress, local sponsors and USDA must engage *now* and address this growing issue in an aggressive, practical and strategic manner.

We ask that you include authorization for the Watershed Rehabilitation Program in the farm bill. We would also ask the House to authorize funding for rehabilitation of aging watershed dams in the coming farm bill. Our recent disappointment with last minute Senate action which removed the modest funding level for the Program from their version of the Bill cannot be overstated.

Once authorization is in place we would ask House Committee members to join us in working with appropriators to insure authorized funding is fully appropriated. All across this nation, local sponsors are working diligently to secure land rights and generate matching funds. Based on the credibility and accountability of these local sponsors much has been achieved in anticipation of Federal watershed rehabilitation funds. A reliable and steady appropriation from Congress is needed to assist sponsors in making efficient use of the often-limited local resources.

We ask that as you develop the conservation title of the new farm bill, that you continue to consider the importance of the USDA Watershed Program as well. The inclusion of the Watershed Rehabilitation Program in the coming farm bill is critical to keeping USDA engaged in the commitment made to local watershed project sponsors. If authorization and funding are not addressed the partnership that has accomplished so much will be abandoned. Abandonment of economic, natural resource, flood protection, water supply, health and safety and environmental benefits makes for bad business sense. Perhaps even worse is the potential abandonment of the Federal and local $15 billion national financial investment in conservation infrastructure that provides $2.1 billion in annual benefits to over 48 million citizens.

Watershed project sponsors fully recognize that the House Agriculture Committee does not have direct responsibility in the area of appropriations. However, we would be remiss if we did not point out that the impact of the decline in funding for the Watershed Program can certainly be seen across the nation as well as in my home state Oklahoma. We believe that the Administration's recent recommendations for no funding are not in touch with the reality of the documented need and demand for the program. We have a significant number of well-planned projects across the nation that are waiting on the necessary funding to be completed. Fluctuations in the USDA Watershed Program budget make it extremely difficult to maintain experienced watershed personnel and sufficient technical assistance.

We appreciate the past efforts of this Committee to provide oversight for the watershed program. We support your efforts to educate the Administration at all levels concerning the necessity to embrace and acknowledge the value and success of the Watershed Program and the investment, benefits and partnership it represents. We pledge our continuing support for your actions on behalf of watershed sponsors across the country.

Rehabilitation of Aging Watershed Dams

As you know Congress authorized the USDA Natural Resources Conservation Service (NRCS) to assist communities in rehabilitating their aging watershed dams when it enacted the Small Watershed Rehabilitation Amendments of 2000. With your leadership this came about as a result of the initiative of watershed project sponsors, the excellent partnership that existed between the sponsors, landowners, community leaders, state conservation agencies, state dam safety agencies, and NRCS as well as foresight of Congress in protecting an important national infrastructure. The act pertains to flood control dams built under the Flood Control Act of 1944 (Public Law 78–534), the Watershed Protection and Flood Prevention Act of 1954 (Public Law 83–566), Resource Conservation and Development, and a pilot watershed program (1952–1954).

Communities with watershed projects have enjoyed a long tradition of protecting lives and property and conserving natural resources. More than 11,000 dams and associated conservation practices have been constructed in 2,000 watershed projects in 47 states since 1948.

Major Rehabilitation Issues for Watershed Sponsors

As sponsors consider the future of their projects they face several major issues, among those are:

- Most of the watershed dams were constructed with a designed or expected life span of 50 years. There are watershed dams that already exceed their design life and that number will soon grow to more than 7,000 with in the next 5 years.
- The extremely serious trend of reduction or redirection of technical and administrative assistance dedicated to the program from the principal Federal partner USDA–NRCS and the subsequent loss of institutional program knowledge has made it difficult for sponsors to secure the assistance needed to keep operation and maintenance efforts current. It has also affected the ability to keep rehabilitation work on schedule even when adequate local or Federal funds are available.
- Some dams no longer meet current dam safety standards. Many dams were originally constructed to protect rural agricultural land and now there are homes, highways and other structures downstream that would be at risk if the dam failed. There are 1,700 high hazard dams and 2,000 more that were designed as low hazard, but are now classified as high hazard due to potential loss of life or property.
- Although sponsors have usually maintained the dams in good condition, components such as metal and concrete components of the principal spillway in some dams have deteriorated over the years and need replacement. Some structures have filled with sediment, reducing the floodwater storage.
- While most of the dams are safe, there are some that pose a threat to public health and safety if they should fail, especially to those who live or work downstream, or those who use the reservoirs as a source of drinking water. Some dams also have the potential for creating adverse environmental impacts in the same downstream flood plain they have been protecting.

Watershed Rehabilitation Program efforts represent a successful partnership that must be maintained. Local sponsors and their state level partners are working diligently to meet their responsibilities. It also requires that USDA–NRCS maintain the technical and administrative resources to deliver the program. It requires oversight and funding from Congress. We appreciate your efforts to assist in maintaining the resources and support necessary for future success.

We appreciate this Committee allowing the National Watershed Coalition an opportunity to provide comments on behalf of local watershed project sponsors.

SUBMITTED LETTER BY RUSS SHAY, DIRECTOR OF PUBLIC POLICY; LYNNE SHERROD, WESTERN POLICY MANAGER, LAND TRUST ALLIANCE

April 25, 2012

Hon. FRANK D. LUCAS,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. COLLIN C. PETERSON,
Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Lucas and Ranking Member Peterson,

The Land Trust Alliance (the Alliance) would like to submit this testimony for the record of your hearing on conservation programs in the 2012 Farm Bill.

The Alliance promotes voluntary private land conservation to benefit communities and natural systems. We work with more than 1,700 local, state and national land trusts across America. The Alliance has worked in the past several farm bills to maximize funding for the purchase of conservation easements in the farm bill, and to increase land trusts' ability to partner with Natural Resources Conservation Service (NRCS) to deliver these and other Federal conservation programs to landowners. The result has been highly leveraged conservation of working lands.

We appreciate the difficult task before you in balancing the need to control Federal spending while ensuring that the positive conservation outcomes of past farm bills are not casualties of disproportionate cuts.

Easement programs like the Farm and Ranch Lands Protection Program (FRPP) and Grassland Reserve Program (GRP), administered by NRCS, are now conserving hundreds of thousands of acres of environmentally and economically important landscapes across America. While our member land trusts and the landowners they work with use many of the farm bill conservation programs, these two easement programs are the two most often identified by Alliance members as critical sources of funding for their conservation work nationwide.

Thank you for considering the following recommendations to increase the effectiveness of the conservation easement programs in the 2012 Farm Bill.

Maximize Funding for Perpetual Working Lands Easements

(1) **Securing funding for perpetual easements** to protect working farms, ranches and forests is the Alliance's top priority for the 2012 Farm Bill. There is strong and growing demand for these programs from producers.

(2) **Preserve the integrity of the working land conservation easements.** The proposal for a consolidated "Agricultural Conservation Easement Program" with a distinct leg for "Agricultural Land Easements," seems to be a reasonable framework for ensuring that the important functions of FRPP and GRP remain intact.

Conservation dollars leveraged through local partner match and landowner contributions, invested in perpetual conservation easements, are a cost effective way to secure a land base for agricultural economies, sustain wildlife and other important natural resources, secure our national food supply, and protect the economic viability and quality of life of many rural communities.

Embrace Match Alternatives

(1) **Don't limit landowner generosity.** Give landowners the option of donating additional easement value to fulfill the match requirement for NRCS funds. The current requirement for a cash match restricts the use of FRPP and GRP for many landowners and land trusts. We support limiting Federal funding to no more than 50% of the value of an easement, but believe that allowing match requirements to be satisfied through the broadest possible means will afford NRCS the ability to more strategically target critically important productive lands.

Requiring cooperating entities to provide a cash match for easement projects can prevent important conservation in rural regions of the country that do not have state or local government funding for conservation and may result in missing strategically important conservation opportunities.

(2) **Restore the Department of Defense's ability to provide a match for conservation easement programs.** Prior to the 2008 Farm Bill, funding from the Department of Defense (DOD) Readiness and Environmental Protection Initiative (REPI) provided a vitally important source of match for FRPP in several states, allowing cooperating entities to purchase conservation easements from farmers and ranchers whose lands also helped insulate military bases from encroaching development. It also simultaneously advanced important national defense goals. When the 2008 Farm Bill converted FRPP into a grant program, it had the unintended consequence of disallowing use of these funds under the "no Federal to Federal match" rule. In many cases buffer funds served as the only source of match for cooperating entities. Its loss has effectively shut down use of FRPP in these areas, and has set back what was a productive partnership between NRCS and DOD.

Streamline the Application and Appraisal Process for FRPP & GRP

Both NRCS and the Alliance members who utilize these programs share the goal of completing projects in a timely and efficient fashion but we want to ensure that the farm bill pays close attention to the following issues:

(1) **Streamline the landowner application processes.** NRCS now requires multiple forms from landowners, some of which require the landowner to register with outside organizations (for administration of AGI requirements and new Federal contracting rules). We hope the farm bill will direct the administering agencies to simplify these requirements and find a way to better equip landowners to meet them. The current process can be difficult to comply with, particularly for landowners without reliable Internet access. NRCS is not equipped in every region to effectively help landowners complete these applications. With the elimination of many NRCS offices nationwide, this situation will only grow worse.

(2) **Streamline appraisal practices.** Appraisal reviews are essential to prevent abuse, but **delays in agency appraisal reviews have been the single largest factor in slowing down FRPP projects.** Improving this area is critical to shortening the time needed to close FRPP/GRP transactions.

We strongly advocate for aligning all existing Federal requirements regarding conservation easement appraisals. Currently the Internal Revenue Code section 170(h) rules, required for any transaction involving a landowner donation of value, requires appraisals to be completed within 60 days of recording the final documentation. NRCS allows 90 days for appraisal *reviews,* which plays havoc with closings all across the country, and in many instances has necessitated paying for costly new appraisals and in conflicts where land values have changed in the interim.

Allow Eligible Entities To Hold Forest Legacy Easements, Subject to the Approval of the State Program

(1) Some landowners are hesitant to put their lands under conservation easements held by state agencies. Allowing state foresters an option to place easements purchased with Forest Legacy funds with eligible entities, so long as the easements remained consistent with the state Forest Legacy plan, would enable some states to enroll strategically important forest lands they might not be able to protect otherwise.

We recognize and appreciate your determination to meet the needs of a growing nation, while embracing the significance of its working landscapes and the landowners who steward them.

Thank you for considering our views regarding these critically important programs. For your information, we have also included our comments regarding conservation programs in the recent Senate draft farm bill.

Respectfully yours,

Russell Shay | Lynne Sherrod

RUSS SHAY,
Director of Public Policy;

LYNNE SHERROD,
Western Policy Manager.

ATTACHMENT

April 24, 2012

Hon. DEBBIE STABENOW,
Chairwoman,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.;

Hon. PAT ROBERTS,
Ranking Minority Member,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.

Dear Chairwoman Stabenow and Ranking Member Roberts:

The Land Trust Alliance wishes to commend you and your staff for the draft farm bill recently posted on the Committee's website.

The Alliance promotes voluntary private land conservation to benefit communities and natural systems. We work with more than 1,700 local, state and national land trusts across America, many of whom work with NRCS and other USDA agencies to protect working farm, ranch and forest lands across America.

As you know, we have paid special attention to the working land easement programs, including the Farm and Ranch Lands Protection Program (FRPP) and Grassland Reserve Program (GRP), now combined in your draft bill as Agricultural Land Easements under the Agricultural Conservation Easement Program. We want to thank you for the thoughtful way this has been done in the draft, and for the funding levels provided for these easements.

The need and demand for the easement program from farmers, ranchers, forest owners and their conservation partners will continue to grow, and we will continue to advocate for funding adequate to that demand. At the same time, in the context of spending reductions throughout the bill, we greatly appreciate the funding levels you have provided for the Agricultural Land Easement Program.

We also wish to thank you for increasing the spending caps we understand you have agreed to for the Forest Legacy Program and the Community Forest Program, also of great interest to our members.

We look forward to working with you to ensure that the best possible bill moves forward. We have attached more detailed observations about Subtitle H to this letter.

Respectfully yours,

RUSS SHAY,
Director of Public Policy;

LYNNE SHERROD,
Western Policy Manager.

ATTACHMENT

Observations related to Subtitle H

1. Overall, the language does a good job of conveying the distinct differences and separation needed between the two legs of the new Agricultural Conservation Easement Program: Agricultural Land Easements (ALE) and Wetland Easements.

2. We are pleased with the proposed administration of this program as well as the defined appraisal process which specifies use of the Uniform Standards of Professional Appraisal Practices.

3. Cost share concerns:

a. We believe the waiver authority for grasslands under Section 1265B(2)(C) that allows the Secretary to provide up to 75 percent of the fair market value in the case of grasslands of special environmental significance is a very useful exception to the general policy of limiting the Secretary to providing no more than 50 percent of the fair market value, and will help the new program greatly as we transition from an NRCS acquisition program under GRP to a program relying on third parties to hold easements.

b. We would like to see increased flexibility in the approach to the 50 percent match required for other ALE projects, including farm and ranch land easements, to allow the Secretary to recognize eligible entity expenditures and landowner donations in cases where they will advance strategically important conservation.

c. We regret that the Committee has not chosen to restore the ability of the U.S. Department of Defense to provide matching funds for ALE projects, which they did with FRPP projects until that was quite inadvertently halted by language changes in the 2008 Farm Bill. We believe that partnership was a very valuable one for conservation.

4. We thought the intent of the cost-share language for ALE easements is to replicate the requirements currently in place. Some of our partners questioned whether the language succeeds in doing that, and we will want to carefully work through this language with you to make sure it does. It appears that the new language **actually requires a higher cash match** for those cases where there is already a significant landowner donation of value.

5. Thank you for continuing to recognize the importance of allowing eligible entities to use their own templates for easements that are consistent with the purposes of the program and provide effective enforcement of the conservation values.

6. We understand and agree that the Federal investment in easements must be protected by a right of enforcement, but believe that the changes in the 2008 Farm Bill better addressed this issue through the provision of a contingent right of enforcement to the Secretary. This comes down to a very important question of who has the primary responsibility for enforcement of an easement, and that must belong to the eligible entity.

7. It is also understandable that there is provision for the treatment of any potential violation [Section 1265B(b)(4)(E)]. However, this is drafted in a way that could provide for draconian penalties far beyond the cost of correcting any harm, with no clear assurance that the eligible entity would be allowed a reasonable opportunity to resolve any concern before an agreement would either be terminated or a refund requested.

Other Conservation Issues

1. Thank you for introducing expanded compatible uses to the Wetland Easements as well as decreasing the ownership requirement from 7 years to 24 months. The 7 year requirement has been a barrier to important wetland conservation, and ignored circumstances including bankruptcies and other unforeseen ownership changes.

2. Thank you for the reported increases in the funding caps for the Forest Legacy and Community Forest Programs, which are of great interest to many of our members.

SUBMITTED QUESTIONS

Response from Gene Schmidt, President, National Association of Conservation Districts

Questions Submitted By Hon. Glenn Thompson, a Representative in Congress from Pennsylvania

Question 1. In Alabama, agriculture and forestry are synonymous—so I was pleased that the last farm bill included changes to treat forest owners the same as farmers in the conservation title—in programs like EQIP, WHIP, and CSP. A big concern in Alabama with respect to forestry is making sure we have healthy forests that can support our strong forest products. How do these programs enable that? Are there things we can do to strengthen this?

Answer. Conservation districts are the local decision makers, using expertise and site specifics in conservation application. I truly believe that with a locally-led process and proper program implementation, the priorities of healthy forests will continue to be put into practice.

We support the changes made to programs like EQIP in the 2008 Farm Bill that include a forestry component. Through cost share programs like EQIP, these programmatic changes have assisted landowners in making forestry conservation a priority in their conservation plans and implementation. When a producer or private landowner works with the local conservation district, a conservation plan is created. This often includes a suite of best management practices that address different land use concerns. Through the conservation plan, you get the most return on investment. Therefore, in order to strengthen these programs and healthy forests, it is critical that we emphasize the importance of conservation planning. We support the extension of these provisions and will be happy to work with the Committee to ensure their inclusion in the 2012 Farm Bill.

Question 2. Several farmers have expressed a frustration with the Conservation Stewardship Program (CSP). I understand that this is a voluntary program, but it has been express that some of the practices do not make sense and that money could be used for a wide range of other practices that would be more beneficial to conservation. Some examples of questionable practices include: cutting hay fields in reverse, putting ramps in water troughs, and killing trees for woodpeckers to nest in. Do you feel this is a wise expenditure of taxpayer dollars and if so why? If not, how should we modify CSP to stop these practices?

Answer. Conservation district supervisors take pride in working with the private landowner to put the right practices on the right acres. They use a plethora of information in order to prescribe such practices and heavily rely on the Field Office Technical Guide. The guide varies by conservation district, to reflect the priorities for each area. Those priorities are determined by local working groups and State Technical Committees. This guide defines set standards by the U.S. Department of Agriculture based on sound science. These standards and practices are vetted and each serves a purpose when implemented. It is extremely important to have a document that may act as verification of the prescribed best management practices (BMP).

Question 3. Half of my state of Wisconsin is covered by forests and the majority of these are owned by families and individuals. These hard working families supply the raw materials for our state's robust forest products industry, which supports almost 90,000 direct jobs. Most of these families pride themselves in doing things on their own, but outside events can sometimes take over. I've heard from farmers in Wisconsin who in some cases have lost significant acreage due to fires and need to restore their forests. How do the conservation programs in farm bill help these families out? Are the current authorities sufficient to provide them with forest management assistance when needed?

Answer. As these emergency situations continue to occur, it is critical that there is a flexibility built into conservation programs to be able to assist in these restoration efforts. That said, a well managed forest is less likely to fall into dismay. Dollars spent on preventative maintenance will have a much better return on investment, as compared to that spent on corrective maintenance. This past year, we have seen severe weather events. From intense drought to extreme rainfall, conservation allows us to protect our most precious resources that provide us with food, shelter, recreation, natural beauty, and economic benefit. Properly managed acres are less susceptible to damage, so it is important that the landowner receive the proper assistance in maintaining their land.

The addition of forestry provisions in the 2008 Farm Bill, allowing forestry conservation to be a cost shared practice in programs like EQIP, was a very positive step in the rehabilitation of forest lands. Such provisions help landowners with a number of best management practices to assist in forest production goals. As previously mentioned, these provisions should be extended in the 2012 Farm Bill.

Questions Submitted By Hon. Marcia L. Fudge, a Representative in Congress from Ohio

Question 1. Agriculture is Ohio's number one industry, and over $7 billion in agricultural products are sold from Ohio. At a time when individuals and private businesses are doing more with less money, Congress needs to ensure that the best, most efficient Federal programs are prioritized, and in terms of agricultural conservation programs, the Farm and Ranchland Protection Program (FRPP) provides an incentive for landowners to permanently protect their farmland and maintain prime farmland for the future. Understandably, the 2012 Farm Bill will consolidate programs, including the FRPP. How should funding be prioritized between conservation programs that provide permanent protections and those that are not permanent?

Answer. As resource needs vary across the nation it is important to put the right practice on the right acre. Resource priorities are determined through a locally-led process at the district level. This process allows landowners to have the ability to apply practices that best fit their goals. By catering the resource priorities to each location, tax payers get the most out of their investment.

Both permanent protections, or easements, and nonpermanent easements hold a value for the conservation of our natural resources. Permanent easements allow the beneficiary the ability of knowing what they are buying over time. These easements also create a permanent habitat for local wildlife and ensure continued soil health. Nonpermanent easements provide benefit to the local landowner that wants to participate in a program, like CRP, the flexibility to participate. Without shorter terms, landowners may be discouraged from participating at all.

Question 2. The population of Ohio exceeds 11.5 million, with several densely populated metropolitan areas including Cleveland. If you look at development trends in Ohio, much of that development happens on the borders of those metropolitan areas. Coincidentally, the metropolitan borders are located in extremely fertile and productive prime farmland. Once farmland is developed, you will never get back those prime soils which is why the Farm and Ranchland Protection Program (FRPP) was created. As noted in Ohio's "Farm and Ranchland Protection Program 2012 State Plan," there is a challenge to keep agricultural lands in production to provide food to our metropolitan areas. If conservation programs such as FRPP are combined with other programs that have a focus on wetlands or grasslands, how can we ensure that conservation dollars are targeted towards these areas that border metropolitan areas to ensure that prime farmland stays in production and not development?

Answer. NACD supports the purpose of FRPP and keeping prime lands in production. In many circumstances, once prime acres leave farm production, it is unlikely that those valuable acres will return to farmlands. Once the land use changes from production or habitat, it is likely that those lands will be replaced.

Though it is important to protect prime acres, if FRPP were to be consolidated, I am confident that these urban fringe lands would still find protection. The land use change of these prime acres is a well know risk and accounted for in many other conservation programs. Prime farmland should qualify for the same protection as wetlands or grasslands. Federal agencies with responsibilities for developing mitigation plans should adopt policies recognizing the value of prime farmland for agricultural production. I trust that, through the rule making process that such lands would have a safe harbor and continue to be a priority for the U.S. Department of Agriculture.

Question 3. The public is concerned about what it feels is too much government and red tape, and in this next version of the farm bill, we need to look at what conservation programs work efficiently and effectively. Congress can authorize programs to address conservation needs on farms, but those programs won't be widely utilized if the paperwork and other requirements created by the USDA are too much for farmers. How can we improve the efficiency of programs like the Wetlands Reserve Program so that farmers are not overwhelmed by all of the forms and paperwork requirements? Is there any value in having an outside audit to find ways to streamline conservation programs and improve efficiency?

Answer. NACD supports all efforts to streamline the conservation program administration process. These efforts should reduce program and paperwork duplication and result in a simple application process for landowners. A streamlined process would ensure that landowners have a full range of program options to meet their conservation and resource needs, without the burden of a complex application. Convenience and efficiency are important to producers and landowners in order to implement conservation practices.

Another improvement to program efficiency is conservation planning. By creating a plan for your farm or back yard, the landowner knows exactly what their options are. This also helps in applying the right practice for the right acre. Conservation plans not only assist the landowner in implementation, but serves as a record for districts offices and shows how program funds are applied.

I applaud the steps taken by the Natural Resources Conservation Service (NRCS) in its streamlining initiative. Chief White recently initiated USDA field services that increase the use of technology and ultimately result in a more complete planning process and delivery system. The Conservation Delivery Streamlining Initiative allows producers and private landowners to use fewer dollars, while ensuring greater accountability and scientific, merit-based systems for the Federal investment.

The language approved by the Senate Agriculture Committee in the Agriculture Reform, Food and Jobs Act of 2012, addresses streamlining by eliminating the request of information that may already be on file. The bill requires the Secretary of Agriculture to establish a single, simplified application where the applicant is not required to provide information that is duplicative of information already available to USDA. I applaud these efforts as it is important that we do not further complicate the application process.

Conservation districts work very closely with landowners and can see firsthand the complexity of the application process. I do not feel that it is necessary to have an outside audit evaluate a process with flaws that are very evident. I fear that such a venture may detract from the job at hand, implementing conservation practices on the ground.

Response from Jon Scholl, President, American Farmland Trust

Questions Submitted By Hon. Glenn Thompson, a Representative in Congress from Pennsylvania

Question 1. During your testimony, you state: "one of the most important functions the conservation title plays is to protect farm and ranch land from development and ensure that it is available for productive agriculture." You later mention that currently 6–7 million acres of highly productive land is enrolled in CRP mostly as a result of the practice of enrolling whole fields. Has American Farmland Trust considered any changes to the CRP program like preventing enrollment of class I and class II lands?

Answer. American Farmland Trust (AFT) believes that our productive farmland should be farmed in a responsible manner, not converted to development or unnecessarily set aside if it is not environmentally sensitive. Together, the Farm and Ranch Land Protection Program (FRPP) and the Conservation Reserve Program (CRP) can help achieve these two aims. FRPP is the primary tool for protecting farmland from development, and it must be remain robust and well-funded in order to safeguard the future of agricultural economies that face development pressure. CRP, by protecting vulnerable land, can be an integral partner in ensuring that our working landscape remains productive and healthy, but some changes in the program's operations are warranted in the face of rising demand for farm products.

Currently, CRP includes 6 to 7 million acres of cropland with an erodibility index less than eight. These lands could be responsibly farmed rather than being retired. AFT believes that CRP should be focused on marginal cropland and other environmentally sensitive lands that are generally unsuitable for being farmed without serious environmental degradation, lands used for high value buffer practices under the continuous signup, and the most important lands for wildlife habitat. AFT recommends that the enrollment process for CRP be tightened to ensure that only the most environmentally sensitive lands are enrolled in the future, including by splitting whole-farm parcels into environmentally sensitive land and farmable land. This could be accomplished by tightening the Environmental Benefits Index (EBI) that is used to rank and select applications in the general signups. We do not believe that it is appropriate to enroll whole farms unless each field and tract meets the eligibility requirements and satisfies the EBI score established as the threshold for acceptance. This change would maximize the program's environmental benefits per dollar while keeping productive land in agriculture.

In addition, CRP can be made more producer-friendly while still generating significant environmental benefits. For example, grazing can control invasive species while providing an economic gain for the producer. We recommend that sensitive grasslands be made eligible for enrollment, providing significant benefits for wildlife, and that appropriate lands be made available for harvesting or grazing, consistent with the conservation of soil, water quality, and wildlife habitat, such as protection of habitat for birds during the nesting season. Statutory protections would be needed to preserve conservation benefits while offering greater flexibility to producers. These protections, such as vegetative management requirements, grazing periods, and stocking rates, would be written into the CRP plan for the affected acres. Some adjustment in rental rate for harvesting and grazing should be made to account for the producer's economic gain under a flexible contract.

To be clear, we do not recommend preventing enrollment of Class I and II lands outright, since some of these lands may be incidental to otherwise appropriate enrollments of sensitive lands, some may be needed for high-value buffer practices under the continuous signup, and some may be of the highest value for wildlife protection in a particular region. However, the changes proposed above would greatly reduce the enrollment of Class I and II lands, maintaining the best land for agriculture while continuing to protect sensitive land.

Question 2. Several farmers have expressed a frustration with the Conservation Stewardship Program (CSP). I understand that this is a voluntary program, but it has been express that some of the practices do not make sense and that money could be used for a wide range of other practices that would be more beneficial to conservation. Some examples of questionable practices include: cutting hay fields in reverse, putting ramps in water troughs, and killing trees for woodpeckers to nest in. Do you feel this is a wise expenditure of taxpayer dollars and if so why? If not, how should we modify CSP to stop these practices?

We share the goal of maximizing the environmental benefits per dollar expended through the Conservation Stewardship Program (CSP). In general, we do not question the technical determinations of the Natural Resources Conservation Service. Presumably, the practices mentioned in the question above have been shown to improve ground-nesting bird survival, reduce mortalities of birds and small mammals in water troughs, and promote woodpecker populations. (Of course, if technical reviews indicate that these practices or others in fact do not generate the intended benefits, we would support revising the program to remove them.) However, it is clear that the importance and effectiveness of these practices varies based on the conditions on individual farms, in small watersheds, and in sub-state regions. For instance, if a farm is located in a region with declining woodpecker populations and the surrounding area does not contain sufficient dead trees for nesting, then killing trees for woodpeckers may provide significant environmental benefits. Likewise if members of important species are being lost in water troughs or ground-nesting birds are declining, practices to abate these losses make sense. However, in many areas there are ample woodlots, few losses in water troughs, and extensive pastures supporting ground-nesting bird populations.

Our proposal for improving CSP directly addresses this variability in farm context and helps ensure that practices like those listed are only scored highly where they are truly a high priority. Specifically, we propose that the program ranking criteria be modified to strengthen the focus on local conservation priorities. Currently, NRCS state conservationists select 3-5 priority macro-resource concerns, out of a total of 8, to focus on in the different regions of their state. These macro-resource concerns are relatively blunt instruments: Soil Erosion, Soil Quality, Water Quantity, Water Quality, Air Quality, Plants, Animals, and Energy. We recommend that state conservationists instead be required to select 5-6 priority micro-resource concerns out of a total of 28. Micro-resource concerns are much more detailed. Examples include gully erosion, soil salinity, insufficient water, nutrient loss, airborne soil particulates, and terrestrial wildlife. Prioritizing at this finer level would allow program managers to capture the differences in farms and regions, so that, for example, ground-nesting bird practices are not given extra points where they are not truly a priority. In general, this change would sharpen CSP's focus on the highest value conservation activities, significantly improving its cost-effectiveness, without undermining the whole-farm nature of the program.

Response from David D. Petty, cattle producer, Iowa River Ranch; Member, National Cattlemen's Beef Association, Environmental Working Group *

Questions Submitted By Hon. Martha Roby, a Representative in Congress from Alabama

Question 1. Mr. Petty, in your prepared remarks, you state that "EQIP is the best tool cattlemen on the ground have to implement conservation practices that allow them to be in compliance with environmental regulations."

Can you please describe some of the environmental regulations that you face on your operation?

Question 1a. How has EQIP helped you comply with these environmental regulations?

Question 1b. Without cost-share programs like EQIP, would you be to afford the improvements that are necessary to be in compliance?

Question 2. EQIP is a very popular program for livestock producers, but what are some of the other conservation programs that benefit livestock producers?

Question 3. Given the diversity of climate and landscape, should the government take a one-size-fits-all approach to conservation programs just like taxes? Please explain the need for diversified conservation programs like the Grasslands Reserve Program and the Wetlands Reserve Program.

Question 4. The widespread wildfires of 2011 and continuing historic drought of the South and West have caused a tremendous decrease in the cattle herd. Without adequate feedstock, many producers were forced to liquidate their herds or relocate their herds to other areas. Do you believe that in the future, livestock producers should have greater access to emergency haying and grazing of land enrolled in Conservation Reserve Program (CRP)? Can you explain the importance of haying and grazing in conservation programs like CRP?

Question 5. Several farmers have expressed a frustration with the Conservation Stewardship Program (CSP). I understand that this is a voluntary program, but it has been express that some of the practices do not make sense and that money could be used for a wide range of other practices that would be more beneficial to conservation. Some examples of questionable practices include: cutting hay fields in reverse, putting ramps in water troughs, and killing trees for woodpeckers to nest in. Do you feel this is a wise expenditure of taxpayer dollars and if so why? If not, how should we modify CSP to stop these practices?

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* There was no response from the witness by the time this hearing went to press.

SUPPLEMENTARY MATERIAL SUBMITTED BY UNITED STATES DEPARTMENT OF AGRICULTURE

During the April 26, 2012 hearing entitled, *Formulation of the 2012 Farm Bill (Conservation Programs)*, a request for information was made to USDA. The following is their information submission for the record.

Insert

Mr. PETTY. Yes. Now into the 25 percent, I am quite certain the 25 percent is a limit per county, any land within a county, so that—those numbers would be very accessible within a county office. You know, they have to keep track of that and not go above it, so those numbers could be put together pretty easily on a county basis. You know, we just believe that the most sensitive grounds should be qualified under EBI, and then—and not the other ground.

Mr. GIBBS. Mr. Chairman, I am out of time. Just to finish up, I just want to request of the Committee or request of the USDA or NRCS those numbers. I think that would be helpful when we do the bill. Thank you.

The CHAIRMAN. Without objection.

Conservation Reserve Program 25% Cropland Compliance Report
As of 3/7/2012

County Name	Maximum Cropland Enrollment			FY 2012 Compliance Status					FY 2013 Projected Compliance Status (on 10/1/2012)					General Signup Limit Compliance Status	
	Cropland Acres	Waiver to exceed 25%	Maximum cropland available to enroll in CRP/WRP	Active Gen. Signup cropland acres	Active Cont. Signup cropland acres	Active WRP crop-land acres	Total cropland enrolled in CRP/WRP	% crop-land en-rolled in CRP/WRP	CRP Expir-ing on 9/30/2012	Gen. Signup starting on 10/1/2012	Cont. Signup starting on 10/1/2012	% Crop-land en-rolled in CRP/WRP on 10/1/2012	Maximum additional CRP enroll-ment to be active in FY 2013	Gen. Signup limit	Max add. General Signup to be en-rolled in FY 2012
Alaska															
Delta	66,698.6	25.0%	16,674.7	18,020.9	0.0	0.0	18,020.9	27.0%	990.1	0.0	0.0	25.5%	−356.1	25.0%	−356.1
Colorado															
Baca	906,826.6	35.0%	317,389.3	276,134.6	waiver	0.0	276,134.6	30.5%	70,452.0	0.0	waiver	22.7%	111,706.7	35.0%	111,706.7
Crowley	73,841.6	35.0%	25,844.6	23,202.3	0.0	0.0	23,202.3	31.4%	2,273.2	0.0	0.0	28.3%	4,915.5	35.0%	4,915.5
Kiowa	690,869.3	30.0%	207,260.8	182,789.0	waiver	0.0	182,789.0	26.5%	103,357.2	0.0	waiver	11.5%	127,829.0	30.0%	127,829.0
Prowers	580,225.9	30.0%	174,067.8	157,897.8	5,240.6	97.5	163,235.9	28.1%	51,310.8	0.0	0.0	19.3%	62,142.7	30.0%	62,142.7
Pueblo	107,284.4	35.0%	37,549.5	33,288.9	0.0	0.0	33,288.9	31.0%	8,489.7	0.0	0.0	23.1%	12,750.3	35.0%	12,750.3
Florida															
Brevard	56,395.4	25.0%	14,098.9	0.0	0.0	13,072.0	13,072.0	23.2%	0.0	0.0	0.0	23.2%	1,026.9	25.0%	1,026.9
Idaho															
Bannock	200,329.4	25.0%	50,082.4	51,251.2	waiver	0.0	51,251.2	25.6%	15,461.9	0.0	waiver	17.9%	14,293.1	25.0%	14,293.1
Power	343,042.6	25.0%	85,760.7	85,130.6	waiver	0.0	85,130.6	24.8%	53,806.8	0.0	waiver	9.1%	54,436.9	25.0%	54,436.9
Kansas															
Hamilton	451,441.7	30.0%	135,432.5	111,108.1	waiver	0.0	111,108.1	24.6%	62,661.1	0.0	waiver	10.7%	86,985.5	30.0%	86,985.5
Morton	321,029.7	32.0%	102,729.5	75,265.7	waiver	0.0	75,265.7	23.4%	4,903.3	0.0	waiver	21.9%	32,367.1	32.0%	32,367.1
Louisiana															
Catahoula	207,928.7	25.0%	51,982.2	13,255.3	12,959.1	23,981.0	50,195.4	24.1%	1,178.8	0.0	0.0	23.6%	2,965.6	25.0%	2,965.6
Concordia	237,558.8	25.0%	59,389.7	20,598.5	16,257.4	16,400.9	53,256.8	22.4%	766.9	0.0	0.0	22.1%	6,899.8	25.0%	6,899.8
Minnesota															
Roseau	532,365.7	25.0%	133,091.4	107,211.0	18,017.2	91.0	125,319.2	23.5%	6,728.4	0.0	0.0	22.3%	14,500.6	25.0%	14,500.6
Mississippi															
Adams	29,531.7	25.0%	7,382.9	4,884.2	35.4	4,032.4	8,952.0	30.3%	1,782.6	0.0	0.0	24.3%	213.5	25.0%	213.5

Grenada	48,849.7	25.0%	12,212.4	7,809.6	2,050.8	3,905.0	13,765.4	28.2%	1,742.5	0.0	0.0	24.6%	189.5	25.0%	189.5
Jefferson	33,712.4	25.0%	8,428.1	4,250.9	0.0	5,067.0	9,317.9	27.6%	1,412.5	0.0	0.0	23.4%	522.7	25.0%	522.7
Oktibbeha	47,447.4	25.0%	11,861.9	9,466.8	2,597.1	0.0	12,063.9	25.4%	4,445.3	0.0	0.0	16.1%	4,243.3	25.0%	4,243.3
Panola	169,739.1	25.0%	42,434.8	33,249.9	9,126.7	102.1	42,478.7	25.0%	7,997.4	0.0	0.0	20.3%	7,953.5	25.0%	7,953.5
Wilkinson	43,155.6	25.0%	10,788.9	7,366.7	0.0	4,832.0	12,198.7	28.3%	2,539.0	0.0	0.0	22.4%	1,129.2	25.0%	1,129.2
Montana															
Lincoln	3,287.5	25.0%	821.9	0.0	0.0	785.6	785.6	23.9%	0.0	0.0	0.0	23.9%	36.3	22.0%	−62.4
New Mexico															
Guadalupe	6,110.5	25.0%	1,527.6	1,543.4	0.0	0.0	1,543.4	25.3%	0.0	0.0	0.0	25.3%	−15.8	25.0%	−15.8
Quay	313,555.6	25.0%	78,388.9	78,964.9	0.0	0.0	78,964.9	25.2%	41,217.4	0.0	0.0	12.0%	40,641.4	25.0%	40,641.4
Roosevelt	525,242.6	25.0%	131,310.7	130,943.2	0.0	0.0	130,943.2	24.9%	12,739.8	0.0	0.0	22.5%	13,107.3	25.0%	13,107.3
North Carolina															
Dare	4,781.8	25.0%	1,195.5	0.0	1,413.6	0.0	1,413.6	29.6%	0.0	0.0	0.0	29.6%	−218.2	25.0%	−218.2
Texas															
Andrews	104,562.3	25.0%	26,140.6	28,056.8	waiver	0.0	28,056.8	26.8%	6,300.5	0.0	waiver	20.8%	4,384.3	25.0%	4,384.3
Bailey	367,635.8	25.0%	91,909.0	84,420.2	waiver	0.0	84,420.2	23.0%	34,805.9	0.0	waiver	13.5%	42,294.7	25.0%	42,294.7
Cochran	302,929.5	25.0%	75,732.4	74,213.0	waiver	0.0	74,213.0	24.5%	32,811.8	0.0	waiver	13.7%	34,331.2	25.0%	34,331.2
Deaf Smith	629,274.9	25.0%	157,318.7	157,145.0	waiver	0.0	157,145.0	25.0%	55,855.6	0.0	waiver	16.1%	56,029.3	25.0%	56,029.3
Freestone	2,001.1	25.0%	500.3	111.3	0.0	417.0	528.3	26.4%	111.3	0.0	0.0	20.8%	83.3	25.0%	83.3
Kenedy	3,767.4	25.0%	941.9	863.9	0.0	0.0	863.9	22.9%	0.0	0.0	0.0	22.9%	78.0	25.0%	78.0
Randall	293,222.5	25.0%	73,305.6	72,977.2	waiver	0.0	72,977.2	24.9%	21,449.6	0.0	waiver	17.6%	21,778.0	25.0%	21,778.0
Utah															
San Juan	137,113.2	25.0%	34,278.3	34,205.5	14.0	0.0	34,219.5	25.0%	2,280.5	0.0	0.0	23.3%	2,339.3	25.0%	2,339.3
Washington															
Douglas	566,620.1	25.0%	141,655.0	139,312.4	waiver	0.0	139,312.4	24.6%	64,937.0	0.0	waiver	13.1%	67,279.6	25.0%	67,279.6
Walla Walla	616,643.5	25.0%	154,160.9	145,810.5	3,146.8	0.0	148,957.3	24.2%	12,247.3	0.0	0.0	22.2%	17,450.9	24.5%	14,367.7

SUPPLEMENTARY MATERIAL SUBMITTED BY RANDALL C. GORDON, ACTING PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION

During the April 26, 2012 hearing entitled, *Formulation of the 2012 Farm Bill (Conservation Programs)*, a request for information was made to Randall C. Gordon. The following is his information submission for the record.

Insert

Mr. PETERSON. . . .

But one of the issues I had that I was wondering about, Mr. Gordon, is in your report here you are talking about this Land Capability Class I and II, which is kind of a broad category that was created back in the 1950s or 1960s, from what I understand, and I don't know if it is applicable to what we are trying to do with CRP or not. But NRCS doesn't use this anymore. I mean, I don't know anybody using this classification, so I guess I am curious. Why are you using that when nobody—when everybody else has moved away from it?

Mr. GORDON. Thank you, Mr. Peterson. We do understand that there are—and I would like to expand in my comments for the record, if I could on that to do a little more research on that, but our understanding is that they are still trying to keep some data based along those lines. They haven't been publicizing those, as you note, but it clearly was a way that Soil Conservation Service and others used at that time to look at where is—what is the best quality farmland we have in the United States.

And so the reason we are trying to use that is to focus again on the productive farmland that we think if the CRP is to be downsized in the matter which it apparently will occur, that that is maybe one approach to take to looking at making sure we get the right acres. But we will provide more for the record on that, and I appreciate the question.

NGFA did a huge study that they sent out earlier this month that addresses this question and more. Here it is.

ATTACHMENT

ReGaining Ground: A Conservation Reserve Program Right-Sized for the Times

Prepared for

National Grain and Feed Foundation

By

Strategic Conservation Solutions

Bruce Knight, Principal

June 2012

Overview

Strategic Conservation Solutions (SCS) LLC was contracted by the National Grain and Feed Foundation to identify and validate conservation policy options for the industry, particularly with respect to the Conservation Reserve Program (CRP).

Market forces are demanding additional sources for grains and oilseeds for food, feed, biofuels and exports. Additional capacity to respond to these market needs is directly correlated with decisions about future enrollments of acreage in the CRP. The National Grain and Feed Association has long advocated for CRP reform. Current budgetary pressures, combined with market signals for additional production, make the grain, feed and processing industry's calls for reform uniquely positioned to capitalize on acreage from expiring CRP enrollments. This can be accomplished while still preserving—and even enhancing—the program's environmental benefits and protect truly environmentally sensitive lands. If better-quality land currently enrolled in CRP is released from the program, there will be significant opportunities for increased acreage available for cropping in the Midwest, Northern, Central and Southern Great Plains, as well as the Pacific Northwest.

In this analysis, SCS examined activity in the 30 largest CRP enrollment states. Most data sets are compiled from generally available USDA sources from the period 2006–2011 to focus on the most recent trends. Data on expiring CRP contracts run from the period 2011–2017.

About Strategic Conservation Solutions

Strategic Conservation Solutions, LLC (SCS) is a specialized consulting firm providing visioning and strategic positioning to firms and associations in the areas of agriculture, conservation, environment and technology. SCS offers common sense conservation solutions where conservation doesn't cost money, but pays. Bruce Knight is a principal and founder of Strategic Conservation Solutions.

Knight is a nationally recognized expert on conservation, agriculture and the environment. From 2002 to 2006, Knight served as Chief of Natural Resources Conservation Service, the lead U.S. Department of Agriculture (USDA) agency for conservation on private working agricultural lands. Knight was the Under Secretary for Marketing and Regulatory Programs at the USDA from 2006–2009. Drawing on his experience as a former association executive, lobbyist, regulator and Capitol Hill staffer, Knight has a broad understanding of how Washington works. But he also brings firsthand knowledge of farming to his national policymaking credentials. A third-generation rancher and farmer and lifelong conservationist, Knight operates a diversified grain and cattle operation in South Dakota using no-till and rest rotation grazing systems. His farming and ranching background gives him the opportunity to practice stewardship and husbandry, providing firsthand knowledge of the interdependency of animal, plant and human health with the environment.

About National Grain and Feed Foundation

The National Grain and Feed Foundation, established in 1965, is the research and education arm of the National Grain and Feed Association (NGFA). A 501(c)(3) not-for-profit charitable organization, the Foundation is financed entirely by voluntary industry contributions to support public education and research projects that benefit U.S. agriculture and the industry as a whole. All contributed funds are used for research and education, with administrative support and management donated by the NGFA.

The NGFA, established in 1896, consists of more than 1,000 grain, feed, processing, exporting and other grain-related companies that operate more than 7,000 facilities and handle more than 70 percent of all U.S. grains and oilseeds. Its membership includes grain elevators, feed and feed ingredient manufacturers, biofuels companies, grain and oilseed processors and millers, exporters, livestock and poultry integrators, and associated firms that provide goods and services to the nation's grain, feed, processing and export industry. The NGFA also consists of 26 affiliated State and Regional Grain and Feed Associations, and has strategic alliances with the North American Export Grain Association and Pet Food Institute.

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ReGaining Ground: A Conservation Reserve Program Right-Sized for the Times

Executive Summary

Expanding world demand for food, feed, biofuels and exports—both today and tomorrow—calls for additional acreage in the United States to be planted to boost production of feed and food grains. At the same time, budget pressure to decrease the cost of farm programs in the 2012 Farm Bill supports releasing high-quality acreage from the Conservation Reserve Program (CRP) and reducing the current acreage cap of 32 million acres. Strengthening demand for grains, oilseeds and their derivative products, combined with ongoing pressure to reduce farm program costs, can lead to opportunities to plant on prime farmland currently sidelined in CRP, to use less-productive land for haying and grazing, and to designate highly erodible land for protection through CRP.

Originally established by the 1985 Farm Bill, CRP was capped at 40 million to 45 million acres in 1990, declining to 36.4 million acres with the 1996 Farm Bill and then rising to 39.2 million acres with the 2002 bill. The 2008 Farm Bill limited CRP to 32 million acres, but only about 30 million acres are currently enrolled in the program. Based upon most recent publicly available data, almost 8.7 million CRP acres are considered "prime farmland," and almost all of it (8.5 million acres) is in the 30 states covered by this analysis. With CRP contracts that include more than 70 percent of the acreage in the program—21.2 million acres—expiring over the next 5 years, there is an urgent need to manage the program so that the most productive land from the reserve is returned to production. CRP land is more likely to return to productive use if USDA manages the program to reduce idling of productive farmland and the acreage cap decreases.

Strategic Conservation Solutions recommends both legislative and administrative strategies for managing the CRP program.

Legislative Recommendations

Based upon the analysis presented in this study, the following legislative changes in the 2012 Farm Bill should be considered to reform the CRP and encourage the return of productive idled land to farming in an environmentally sustainable way:

1. First and foremost, SCS recommends that the current 32 million acre CRP cap be reduced significantly. At a minimum, Congress should mandate acres designated as "prime farmland" (which amounted to approximately 8.7 million acres in 2007, the most recent data publicly available) not be eligible for future enrollment or reenrollment. This would include approximately 7.1 million acres considered to be Land Capability Classes I and II. This land can be farmed in an environmentally sustainable way to meet growing food demand. In the 30 states with the greatest CRP enrollments, approximately 8.5 million acres were considered prime farmland, much of it highly concentrated in several major grain-production states.

2. Second, USDA should be directed to conduct a comprehensive analysis of how best to manage the transition to crop production or grazing land of Class III land from the reserve that is not considered prime farmland. This portion of the reserve likely will need to be tapped over the next 10 to 15 years to address the demands caused by world population growth and farmland lost to urban development. Restricting enrollments of prime farmland and Class III lands, combined with the immediately preceding recommendation, would equate to a CRP of approximately 21 million acres.

3. Third, Congress should frontload the acreage reductions to best match the acreage with CRP contract expirations. Current production needs are causing the conversion of fragile native grasslands to crop production, in part because higher-quality land in those same communities is tied up in the CRP. The transition to a smaller CRP mandated by Congress will be easier in the early years of the next farm bill due to contract expirations than it will be in later years.

4. Fourth, Congress should include legislative language that would limit whole-field and whole-farm enrollments in the CRP by requiring such land to meet a more stringent Environmental Benefits Index (EBI) scoring threshold than partial-field enrollments. During the early years of CRP, whole farms and whole fields were enrolled, which resulted in enrolling high-quality land suited to agricultural production.

5. Fifth, Congress should direct that USDA offer CRP contract holders an early-out (without penalty) as a means of reducing acreage within the CRP that is "prime farmland," most of which should not have been enrolled in the reserve. In addition, penalty-free early outs should be offered in counties that meet or exceed the 25 percent county acreage cap, as well as anytime national enrollment levels preclude a general sign-up. In managing this transition, it is suggested that USDA be required to offer penalty-free early outs for Land Capability Classes I, II and III enrolled in CRP, and require producers who accept early-outs to implement prudent conservation practices on such lands.

6. Sixth, Congress should allocate sufficient monies to at least triple—to $75 million—the size of the Transition Incentives Program, currently authorized at $25 million, for transitioning expired CRP acreage from a retired or retiring landowner to beginning or socially disadvantaged farmers. This program quickly reached its capacity after being authorized as part of the 2008 Farm Bill and needs additional resources, which could be financed through savings garnered from a right-sized CRP. TIP is an important step toward addressing land access for beginning farmers and ranchers. In addition, it is recommended that retired or retiring landowners be allowed to transition such CRP acreage within three years of contract expiration (rather than the current one year), with no change in the current incentive payment (two years of annual CRP rental payments).

7. Seventh, Congress should consider whether to provide a specific percentage- or acreage-based figure within the CRP for future enrollment of the most environmentally sensitive lands. As of April 2011, the CRP included 5 million acres enrolled under continuous sign-up procedures. Some conservation leaders have expressed concern that adequate CRP acreage should be reserved each year to ensure that such environmentally sensitive lands can be enrolled, with some suggesting that as many as 8 million acres of the CRP should be reserved for such high-priority enrollments. Recent USDA press releases imply that the Agency is reserving 1.75 million acres for future continuous enrollments. This is an issue that warrants Congress's attention as it considers the future of the CRP. With a right-sized CRP, it will be crucial that sufficient acreage be reserved for future enrollment of the most important and environmentally fragile lands.

8. Eighth, restrict the discretion for USDA to exceed the 25 percent acreage limit on CRP enrollments in individual counties because of the adverse economic impacts such enrollments have had on rural communities. Further, it is recommended that USDA be required to reserve within the 25 percent county limit at least a 5 percent allowance for acres enrolled in the wetlands reserve and continuous sign-up process.

9. Ninth, USDA should provide the appropriate Congressional committees of jurisdiction with a written explanation of the rationale used to determine the Environmental Benefits Index (EBI) that applies for general CRP sign-ups. Added justification should be provided in years when the EBI changes from one sign-up to the next.

10. Tenth, Congress should direct that USDA conduct and complete within two years of enactment a comprehensive economic impact study that evaluates the impact of the CRP on rural communities.

Administrative Recommendations

USDA should modify several policies in implementing and administering the CRP in the future.

- First, USDA's Farm Service Agency and Natural Resources Conservation Service should compile a report of acreage enrolled in CRP by Land Capability Class and Erodibility Index, and submit it to Congress within one year after the new farm bill is enacted and every three years thereafter. As part of such a report, USDA should be required to compile Land Capability Class and Erodibility Index acreage by county.
- Second, identify, and make public on the FSA website, counties that are at or near the 25 percent enrollment cap. These data will increase transparency and enable USDA and stakeholders to better analyze the prudent management of CRP.
- Third, implement a percentage-based limit on rental rates paid for CRP land compared to average county rental rates so as not to outbid the market for productive acres.

- Fourth, review the EBI to discourage enrollment of high-quality land in the CRP. For example, negative or no points should be awarded for Non-Highly Erodible Land as part of the EBI scoring mechanism.
- Fifth, place sideboards [parameters] on program provisions, rental rates and incentive payments to ensure that neither rates nor program administration work to bring non-environmentally sensitive, highly productive land into the various continuous and special sign-up programs. Examples are outlined below:
    - Consider restricting buffer, filter and riparian strips to no more than 30 to 50 feet in width, as at least one state has used this provision to enroll small, full fields in the higher-cost continuous program rather than the lower-cost general program.
    - Consider restricting SAFE acres to endangered, or candidate, wildlife species—prohibiting these acres from being targeted to game species. It appears that a few states may be using SAFE to increase rental payments on high-quality land to support commercial hunting enterprises. Under no conditions should SAFE acres be allowed to be used for fee-based or commercial hunting enterprises.
    - Consider placing greater emphasis on wetlands protection in the CRP continuous sign-up programs and encourage the transition of wetlands enrolled in the CRP to the appropriate easement program for permanent wetlands protections.
    - Limit uplands enrolled under CRP and easement wetlands to 10 percent of the surrounding area rather than 25 percent, if located on prime farmland.

Introduction

Several challenges, long in the making, have arisen simultaneously today in American agriculture. It makes sense to address them together when reforming the Conservation Reserve Program (CRP).

The world-wide demand for more and higher quality food will only expand as more than 2 billion people are added to the world population in the next few decades. The United States has the prime farmland, production and technology, and sound environmental practices to produce food to help feed people here in America and around the globe.

Many farmers are nearing retirement or even beyond traditional retirement age, while young, beginning and socially disadvantaged farmers are searching for land to put into production. Highly productive cropland currently enrolled in CRP potentially could be made available to these farmers if CRP policies were modified.

Based on the most recent publically available data, more than 8.5 million acres of prime farmland are lying fallow across America rather than being put to their highest and best use because they are unnecessarily idled in the CRP. More acreage would be available for crop production if CRP focused primarily on highly erodible land, wetlands, and land critical to protecting endangered and at-risk wildlife.

The U.S. budget deficit and budget pressures have increased greatly, and farm and conservation programs will have to bear their share of cuts in future Federal spending. Cutting CRP funding by reducing prime farmland included in the program is an option that produces many benefits beyond saving taxpayers' funds.

This study—***ReGaining Ground***—offers an analysis of the CRP; how it came about, where it stands in the 30 states with the largest acreage, and most importantly how to reform it. Development of a new farm bill offers an opportunity to revise CRP to both protect the environment and promote the best use of one of America's greatest natural resources—prime farmland. Reducing acreage under CRP through a managed approach that releases prime farmland for production is a sensible and cost-effective strategy that helps feed the hungry, increase U.S. exports, create jobs, and reduce the U.S. debt, while still protecting natural resources.

Worldwide Food Security

As the future of the CRP program is considered, we also need to look beyond our own shores at the growing food needs around the world. We need to develop a program in the next farm bill that considers both the opportunities and obligations to produce more food to feed an expanding world population, while at the same time protecting the most environmentally sensitive land. We must not restrict the use of prime farmland unnecessarily when it could be cultivated responsibly to produce much-needed food and fiber.

America is blessed with abundant fields and forests. Year after year, American farmers provide a plentiful supply of high-quality, affordable food. In fact, Agriculture Secretary Tom Vilsack points out that Americans spend only 6¢ or 7¢ out of every dollar to pay for the food they eat.[1] On the other hand, there are 1.4 billion people who share the planet who live on less than $1.25 per day.[2] Food represents their major expense. For them, the slightest increase in food prices means foregoing education, reducing healthcare and cutting back on vital nutrients.

Today, the world's population stands at 7 billion. More than 925 million people around the globe—13 percent—are considered undernourished by the United Nation's Food and Agriculture Organization.[3] Those who live in extreme poverty spend 85¢—or nearly 70 percent of their income—on food.[4] Further, an estimated 12 children die every minute from hunger.[5]

By 2050, another 2 billion people will be added to the planet. Increasing population along with an expanding middle class around the world seeking more and better food mean food production needs to double. Former Agriculture Secretary Dan Glickman has said in essence, "the world's farmers, ranchers, and fishers will be expected to produce more food in the next 40 years than they have had to in the last 8,000 years combined."[6]

The U.S. has experienced phenomenal increases in productivity, thanks to advances in technology—including the development of hardier, more productive varieties, improved farming practices and increased use of herbicides and pesticides. In 1940, less than a century ago, each American farmer fed 19 people; today each farmer produces food for 155.[7] That's because yields have increased greatly. Corn production jumped from 24.5 bushels per acre in 1931 to a projected 166 bushels per acre in 2012, more than a six-fold increase. Grain sorghum is up from 16.2 bushels per acre in 1931 to 75.4 bushels per acre in 2012. And wheat production has risen from 14 bushels per acre in 1930 to 45.7 bushels per acre projected for 2012.[8]

Unfortunately, production has not risen as greatly on other continents. For example, in Africa, yields are, on average, seven times lower than those in America. Further, only about 20 percent of the arable land in Africa is under cultivation.[9] So, production in Africa, and in other food-challenged areas, need to increase significantly and increased production in the U.S. will be necessary to bridge the gap.

The U.S. continues to be a major food exporter, with record agricultural exports projected for 2011.[10] In Fiscal Year 2011, the U.S. exported more than 750.36 million bushels of wheat, over 4 million metric tons of rice, nearly 37 million metric tons of soybeans and over 2.1 billion bushels of corn.[11] To maintain America's export customer base, farmers must produce commodities demanded by foreign buyers, and the U.S. must be seen as a reliable supplier.

Based on the USDA's April 2012 World Supply and Demand Estimates, the United States is expected to plant 95.9 million acres of corn, 73.9 million acres of soybeans, 55.9 million acres of wheat, 13.2 million acres of cotton, 6 million acres of sorghum and 2.62 million acres of rice this year. The current CRP is idling about 30 million acres of land. That makes CRP the fourth largest crop in acreage terms—equaling all the cotton, rice, and sorghum planted on an annual basis.

However, even as American productivity must continue to increase, productivity across the globe will need to grow substantially, as well. Meeting the food needs of the future will take everything American farmers can produce combined with all that farmers on every other continent can raise. The U.S. has a role and obligation to responsibly and sustainably grow all it can and maintain its reputation as a reli-

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[1] Agriculture Secretary Tom Vilsack, remarks as prepared for delivery before the Senate Committee on Agriculture, Nutrition and Forestry, 26 May 2011, Washington, D.C.

[2] The Global Poverty Project. "1.4 billion reasons." Accessed 24 June 2011. (*www.globalpovertyproject.com*)

[3] Food and Agriculture Organization of the United Nations. "Global hunger declining but still unacceptably high." Accessed 24 June 2011. (*www.fao.org*)

[4] World Bank. "Put Food First" video. Accessed 24 June 2011. (*www.worldbank.org*)

[5] Simmons, Jeff. "Technology's role in the 21st Century: Making safe, affordable and abundant food a global reality." 2011, *Elanco Animal Health.*

[6] Dan Glickman, co-chair of The Chicago Council on Global Affairs' Global Agricultural Development Initiative, remarks as prepared for delivery before the Senate Committee on Agriculture, Nutrition, and Forestry, 26 May 2011, Washington, D.C.

[7] American Farm Bureau Federation. "Your Agriculture" video. Accessed 24 June 2011. (*www.fb.org*)

[8] Economic Research Service, U.S. Department of Agriculture. Database accessed 15 May 2012. (*www.ers.usda.gov*)

[9] Dan Glickman, co-chair of The Chicago Council on Global Affairs' Global Agricultural Development Initiative, remarks as prepared for delivery before the Senate Committee on Agriculture, Nutrition, and Forestry, 26 May 2011, Washington, D.C.

[10] Agriculture Secretary Tom Vilsack, remarks as prepared for delivery before the Senate Committee on Agriculture, Nutrition, and Forestry, 26 May 2011, Washington, D.C.

[11] Economic Research Service and Foreign Agricultural Service, U.S. Department of Agriculture. "Outlook for U.S. Agricultural Trade," 11 May 2011.

able source of high-quality food and feed. While the U.S. cannot meet the projected demand for food and feed alone, it can contribute to the solution significantly.

In that regard, restricting technology adoption, idling land through the CRP or limiting farmers' planting options sends the wrong message to customers. Markets are important, but restraining production primarily to maximize prices raises supply concerns among potential purchasers. Helping farmers do well financially is critical, but making sure that hungry men, women and children have the food they need for good health is equally vital. The challenge no longer is about managing production to meet targets; job one is how to responsibly and sustainably maximize production.

Reforming CRP to release high-quality acreage could help bridge the gap between production limitations around the world and the current and future need for more food. Restoring prime farmland to productive use can stabilize grain prices globally and boost exports and farmers' bottom lines, while meeting demand abroad and strengthening the U.S. balance of trade.

Conservation Reserve Program (CRP) History

Created by the **Food Security Act of 1985,** the CRP is a voluntary conservation program that provides rental payments under 10 to 15 year contracts to farmers and ranchers who establish long-term vegetative cover to safeguard environmentally sensitive land.[12] The Farm Service Agency (FSA) administers CRP, making rental payments through the Commodity Credit Corporation and paying up to half the producer's cost to establish approved conservation practices. The Natural Resources Conservation Service (NRCS) and the Forest Service, as well as state and local private and public organizations, provide technical assistance for conservation practices installed under CRP.

Since the 1930s the U.S. has been concerned with helping farmers and ranchers prevent soil erosion and safeguard natural resources. In an effort to avoid a future Dust Bowl, through the **Agricultural Act of 1956,** Congress created the Soil Bank, the predecessor of CRP.[13] Over 10 years, the Soil Bank idled 28.7 million acres of land on 306,000 farms to help bring supply and demand into balance for surplus commodities. Set-asides and long-term cropland retirement continued through the **Food and Agriculture Act of 1965.** The **Water Bank Act of 1970** offered annual payments and cost-shares under 10 year contracts to farmers to help preserve existing wetlands in nesting, breeding and feeding areas for migratory waterfowl.

In the **Food Security Act of 1985,** Congress established the CRP to prevent erosion and control grain production by removing farmland from production. Modified with each succeeding farm bill, CRP has evolved from a program focused on reducing soil erosion and controlling grain supplies to one addressing a broader array of environmental concerns. The program began by enrolling up to 5 million acres of "highly erodible" land in 1986. Participating farmers were not allowed to harvest or graze the land. Under the 1985 bill, payments to an owner were limited to $50,000 per year.[14] The program was modeled after the reserve policies popular at the time to reduce or store production in a "reserve" until prices for the grain or commodity reached a specified level.

The **Food, Agriculture, Conservation and Trade Act of 1990** expanded the list of eligible land beyond highly erodible cropland to add marginal pasturelands, land suitable for grass waterways or filter strips, land located near wildlife habitat and several other narrow inclusions. It also named the Chesapeake Bay, the Great Lakes Region and the Long Island Sound Region as priority areas for enrollment in CRP. Under the 1990 bill, farmers could use CRP land for limited haying and grazing with a corresponding reduction in rental payment. Land previously in CRP under vegetative cover could be converted to other conservation measures, such as trees, wildlife corridors or wetlands. In 1990, Congress increased the CRP acreage limit to 40 million to 45 million acres, but only 33.9 million acres actually were enrolled.[15]

With the **Federal Agriculture Improvement and Reform Act of 1996,** CRP lease-holders were eligible to terminate contracts after just 5 years, except for high-

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[12] "Conservation Reserve Program (CRP) Benefits: Water Quality, Soil Productivity and Wildlife Estimates," Farm Service Agency fact sheet, March 2008. Accessed 8 September 2011. (*www.fsa.usda.gov/Internet/FSA_File/factsheet_crp_bennies.pdf*)

[13] "Conservation Reserve Program Final Programmatic Environmental Impact Statement," Farm Service Agency, January 2003. Accessed 8 September 2011. (*www.fsa.usda.gov/Internet/FSA_File/chapter3.pdf*)

[14] O'Brien, Douglas, "Summary and Evolution of U.S. Farm Bill Conservation Titles—Expanded Discussions," National Agricultural Law Center. Accessed 7 September 2011. (*www.nationalaglawcenter.org/assets/farmbills/conservation-expanded.html*)

[15] *Ibid.*

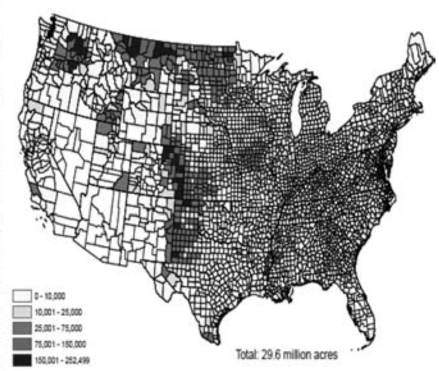
ly sensitive environmental lands, including those with an erodibility index over 15 and lands in filterstrips, waterways and strips adjacent to riparian areas. Enrollment was capped at 36.4 million acres through 2002. Producers could offer any land that had been cropped in two of the previous 5 years and met certain additional environmental criteria.

Under the **Farm Security and Rural Investment Act of 2002,** the maximum enrollment cap was increased to 39.2 million acres, with a requirement that eligible land must have been cropped four out of the previous six years. Land under expiring contracts was automatically considered for re-enrollment and existing covers were to be retained on re-enrolled land if feasible.[16]

The **Food, Conservation, and Energy Act of 2008** reduced the CRP acreage cap to 32 million acres.[17] The legislation specifically identified alfalfa and other multi-year grasses and legumes cropped in a rotation practice as agricultural commodities, making land that had been planted to these crops four of the prior six years eligible for CRP enrollment. In addition, the law granted new authority for routine grazing on CRP land, as determined by local resource conditions. The 2008 bill set forth special provisions for treating CRP land transitioning from a retiring producer to a beginning or socially disadvantaged farmer.

In 2011, CRP marked its 25th anniversary. Agriculture Secretary Vilsack noted in June 2011 that CRP had helped reduce soil erosion by 8 billion tons and restored more than 2 million acres of wetlands since the first contract was signed in 1986.[18] In recent years, however, CRP acreage has declined, attributable to higher grain prices, a lower CRP acreage cap in the 2008 Farm Bill, and market forces that have increased net returns for most commodities compared to CRP rental rates. About 30 million acres currently are enrolled in CRP, and contracts on an estimated 6.5 million acres will expire on September 30, 2012.[19]

CRP Enrollment—October 2011



Prepared by FSA/EPAS/NRA.

Current CRP Status

Data from the 2012 (43rd) sign-up show that the trend of fewer acres offered and fewer acres accepted continues. In this sign-up, USDA's Farm Service Agency (FSA) received 47,934 offers to enroll 4.54 million acres. Of the nearly 48,000 offers, the FSA enrolled 87.6 percent of contracts offered for a total of 42,010 contracts accepted. About 3.87 million of the 4.54 million, or 85 percent, of the offered acres were accepted. Accepted offers will be enrolled in CRP effective October 1, 2012.[20] The CRP is funded in FY 2012 at $2.07 billion. According to Congressional Budget Office estimates, the recent action in the Senate to reduce the acreage cap on the reserve from 32 million to 25 million acres results in $3.795 billion in budgetary savings from 2013–2022, with $1.316 billion in savings from 2013–2017.

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[16] *Ibid.*

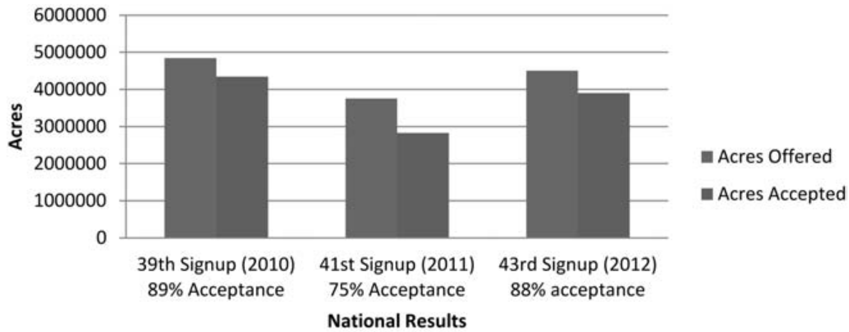
[17] "2008 Farm Bill Side-by-Side, Title 2: Conservation," Economic Research Service website. Accessed 7 September 2011. (*www.ers.usda.gov/farmbill/2008/titles/titleIIConservation.htm*)

[18] "The Conservation Reserve Program: 41st Sign-up Results," Farm Service Agency, June 2011. Accessed 7 September 2011. (*www.fsa.usda.gov/Internet/FSA_File/crpsign-upresults.pdf*)

[19] "USDA Announces CRP General Sign-Up," Farm Service Agency website, February 1, 2012. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/printapp?fileName=nr_20120201_rel_0037.html&newsType=newsrel*)

[20] "Conservation Reserve Program, General Sign-Up 43," Farm Service Agency, February 2012. (*http://www.fsa.usda.gov/Internet/FSA_File/gs43factsheet.pdf*)

General CRP Sign-up Results for 2010–2012



Under the present CRP procedures, producers can offer acreage for CRP enrollment during FSA's general sign-up periods, which occur periodically. Competitiveness of land is based on the Environmental Benefits Index (EBI), which FSA uses to assess the quality of proposed CRP enrollments. Rental payments under CRP are based on local dryland cash rental rates, but producers may offer their land at lower rates—competitive bidding—to increase their chances of being accepted.[21]

Eligibility

To be eligible for enrollment in CRP, land must be:

- Cropland planted to an agricultural commodity four of six years between 2002 and 2007; AND
- Physically and legally capable of being planted to an agricultural commodity.

Land proposed for CRP enrollment must also:

- Have a weighted average Erosion Index of 8 or greater;
- Be expiring CRP land; OR
- Be located in a national or state conservation priority area.

To participate in CRP, a producer must have:[22]

- Owned or operated the land for at least 12 months before submitting the offer; OR
- The producer must:
  - Have acquired the land upon the death of the previous owner; or
  - Have exercised a right of redemption during foreclosure proceedings; or
  - Have assured FSA that he or she did not acquire the land for the purpose of placing it in CRP.

Environmental Benefits Index

FSA ranks enrollment offers through the Environmental Benefits Index (EBI). Highest-ranked offers receive contracts. EBI factors[23] include:

- Wildlife habitat benefits—from vegetative covers on contract acreage.
- Water quality benefits—from reduced erosion, runoff and leaching.
- On-farm benefits—from reduced erosion.
- Benefits likely to last beyond the contract period.
- Air quality benefits—from reduced wind erosion.
- Cost.

See *Appendix A* (Environmental Benefits Index and Soil Classification System).

Current Status of CRP Enrollment

Based upon generally available data, producer interest has shifted from general sign-ups and whole-field enrollments to targeted use of CRP as grain, forage and

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[21] *Ibid.*

[22] "Conservation Reserve Program," Farm Service Agency website. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/webapp?area=home&subject=prod&topic=crp*)

[23] *Ibid.*

fiber prices have strengthened. In addition, individual farms tend to hold multiple contracts, probably because of the use of filter strips and other targeted participations in CRP. Twelve states in the Corn Belt and Great Plains EACH have more than 1 million acres of farmland enrolled in the reserve program. Since a significant portion of this acreage is prime farmland, if the land were no longer under CRP contract, much of it could be accessed for food production while minimizing adverse environmental impacts.

Summary of CRP Contract Data for 30 Largest CRP States as of February, 2012 [24]

	Total CRP Acres	Number of CRP Contracts	Number of Farms	Annual Payments (in dollars)	CRP Rental Rate ($/acre)
Alabama	395,389	8,515	6,051	16,664	46.22
Arkansas	248,501	6,052	3,350	15,542	61.72
Colorado	2,226,572	12,413	6,081	73,173	33.50
Georgia	319,533	9,110	6,406	15,401	48.57
Idaho	668,643	5,029	2,845	30,792	47.29
Illinois	1,037,675	82,542	45,032	123,596	119.91
Indiana	285,739	37,887	21,163	31,950	113.87
Iowa	1,663,570	106,326	53,318	217,898	131.56
Kansas	2,735,014	45,156	25,663	102,716	40.57
Kentucky	358,113	16,834	8,956	38,901	116.18
Louisiana	327,088	5,056	3,219	20,505	63.03
Michigan	228,357	14,884	8,485	20,066	90.31
Minnesota	1,633,911	62,241	32,712	109,437	69.84
Mississippi	851,161	19,419	12,156	42,145	50.79
Missouri	1,361,105	35,509	20,524	102,550	79.33
Montana	2,857,954	13,439	5,538	79,727	31.88
Nebraska	1,076,194	27,166	15,315	62,689	62.44
New Mexico	455,695	1,903	1,210	14,915	35.56
N. Dakota	2,646,747	32,210	15,958	90,038	37.54
Ohio	343,821	37,872	21,138	41,132	121.73
Oklahoma	860,202	7,181	4,859	27,991	33.82
Oregon	550,972	4,356	2,284	29,831	54.53
Pennsylvania	220,039	11,614	7,405	21,454	104.20
S. Dakota	1,159,971	31,433	14,690	66,336	59.72
Tennessee	204,801	7,101	4,717	13,747	71.79
Texas	3,454,151	21,713	15,880	123,055	36.55
Utah	163,082	876	541	5,752	32.21
Washington	1,458,495	12,758	5,307	83,745	56.17
Wisconsin	398,521	23,438	14,370	31,030	83.39
Wyoming	226,044	904	617	5,788	26.84
30 Largest	**30,417,060**	**700,879**	**385,790**	**1,658,566**	**65.37**
U.S.	**29,658,013**	**734,996**	**407,801**	**1,699,810**	**57.31**

An Economic Research Service analysis showed that "working lands" conservation programs, such as the Environmental Quality Incentives Program (EQIP) tend to be used more by "full-time" farmers while "idled-land" conservation programs appear to be utilized to a greater extent by retired farm operators. Intensive use of land-retirement programs is most common among smaller "retired" and "lifestyle" farms. Smaller farms whose operators are focused on nonfarm activities also are more likely to take land out of production. "Whole farm" enrollees (those who effectively replace income from farm production with CRP payments) generally are older than other farm operators, are more reliant upon nonfarm sources of income, and account for roughly half the farms enrolled in the CRP. Most of the remaining participants use CRP to retire selected fields or portions of fields from production. These "partial-farm" enrollees tend to be operators of larger farms who consider farming their "primary occupation." [25] These differences in operators will need to be considered in the transition to a smaller CRP.

In addition, the reserve program has drawn criticism in some quarters for restricting access to land for beginning farmers and ranchers. The reliability and security of renting the farm operation to USDA has in the past been a factor in decisions made by farm operators upon retirement. This is one of the reasons why policy makers have looked for ways to bring together beginning farmers and retired farmers with existing CRP contracts to ease the transition for both the land and the farmers.

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[24] United States Department of Agriculture, Farm Service Agency. Monthly report from February, 2012. (*http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css*)

[25] "Conservation—Compatible Practices and Programs: Who Participates?" Economic Research Service, iv, Economic Research Report Number 14, February 2006.

Expiring CRP Acreage

Nationwide, more than ⅔ of the current acreage enrolled under CRP contracts will be expiring over the next 5 years. About 6.5 million acres will expire in 2012; 14.7 million acres will expire from 2012 to 2016; and 10.4 million acres will expire from 2017 to 2021. In fact, within the 30 largest enrollment states, about 21.2 million acres under CRP will expire between 2011 and 2017. Data generally are not available on the use of land exiting from expired CRP contracts; however, FSA officials state that they assume that 50 percent of land leaving CRP remains as grassland for grazing or recreation, while the remainder is returned to annual cropping. It may be reasonable to assume that from 2006 to 2011, tightening grain stocks would have been more severe had not land formerly enrolled in CRP been brought back into grain, forage and grass production.

As Congress continues to develop the 2012 Farm Bill, there should be a significant policy discussion on the size and future of the CRP. The current program is capped at 32 million acres. As of October 1, 2011, there were 29.6 million acres enrolled in the program. The expiration chart on the following page shows that an orderly transition could be accomplished through changes in policies for reenrollment of expiring CRP acres. Further, the greatest opportunity for increased production of grains and oilseeds will be concentrated in the Great Plains states that have a large volume of CRP acres expiring in the 2012 to 2014 time period. Of course, 2012 crop acreage decisions will be made under current rules, influenced by the 2012 CRP general sign-up.

Expiring CRP Acres for 30 Largest CRP Enrollment States [26]

	2011	2012	2013	2014	2015	2016	2017	TOTAL
Alabama	80,901	78,820	35,549	34,783	27,982	14,151	33,409	305,595
Arkansas	12,676	33,655	15,217	11,166	17,838	12,144	16,545	119,241
Colorado	345,664	571,908	222,517	93,480	94,378	86,770	29,385	1,444,102
Georgia	23,506	33,759	15,524	63,464	42,565	3,568	14,868	197,254
Idaho	117,198	165,536	68,492	42,999	23,502	14,278	27,182	459,187
Illinois	68,732	111,481	186,779	98,149	118,324	84,430	100,811	768,706
Indiana	22,188	36,556	48,454	19,477	27,171	19,313	32,452	205,611
Iowa	72,013	231,672	185,926	92,558	113,924	98,228	226,566	1,020,887
Kansas	532,633	519,729	212,366	119,412	113,849	98,600	143,379	1,739,968
Kentucky	37,182	46,635	35,354	20,698	26,190	12,788	26,128	204,975
Louisiana	11,862	38,119	23,712	49,859	28,455	3,396	8,918	164,321
Michigan	11,081	18,988	45,166	7,612	26,326	39,210	20,699	169,082
Minnesota	127,535	292,429	130,246	207,841	101,634	90,803	103,982	1,054,470
Mississippi	101,126	166,762	65,500	45,976	64,838	41,192	127,424	612,818
Missouri	196,064	377,136	184,774	57,430	79,009	68,245	135,391	1098,049
Montana	496,808	696,877	367,753	251,419	114,745	36,191	417,937	2,381,730
Nebraska	150,895	201,982	98,449	71,628	65,757	51,030	72,058	711,799
New Mexico	164,790	121,194	9,643	6,508	1,795	2,363	123,485	429,778
N. Dakota	386,955	839,965	258,764	148,535	53,619	39,239	362,176	2,089,253
Ohio	13,361	26,744	56,197	13,360	27,869	20,831	43,115	201,477
Oklahoma	191,880	191,681	76,028	21,025	25,160	27,308	72,142	605,224
Oregon	104,602	90,001	56,370	32,982	35,018	30,211	80,675	429,859
Pennsylvania	21,411	27,335	13,806	13,998	16,259	9,925	19,643	122,377
S. Dakota	125,185	226,911	107,088	71,874	45,739	58,037	16,952	651,786
Tennessee	34,323	29,016	51,470	9,497	13,881	9,199	13,610	160,996
Texas	684,440	825,817	362,815	170,352	140,394	60,962	138,489	2383,269
Utah	18,174	27,693	3,795	396	3,484	3,278	102	56,922
Washington	88,767	275,491	254,229	141,388	131,322	103,112	10,987	1,005,296
Wisconsin	44,353	69,748	73,867	26,763	32,217	17,134	46,481	310,563
Wyoming	50,116	61,082	5,660	6,145	3,881	969	1,580	129,433
Top 30 Total	**4,336,421**	**6,434,722**	**3,271,510**	**1,950,774**	**1,617,125**	**1,156,905**	**2,466,571**	**21,234,028**
U.S. Total	**4,414,792**	**6,542,552**	**3,329,006**	**2,002,742**	**1,685,899**	**1,203,986**	**2,677,402**	**21,856,379**

The strong demand for additional grain, oilseed and fiber production for food, feed, biofuels and exports likely will influence the size of CRP specified in the final 2012 Farm Bill, as will the pressure to cut Federal costs to reduce deficit spending. The recently completed markup of the Senate version of the farm bill set a 25 million acre maximum cap for CRP with a slow drawdown schedule to that lower level. The Senate package, as passed by the Senate Agriculture Committee, gradually would reduce the CRP cap to 32 million acres in 2012; 30 million acres in 2013; 27.5 million acres in 2014; 26.5 million acres in 2015; 25.5 million acres in 2016 and 25 million acres in 2015. This sliding scale apparently is designed more to hit needed budget scores than to respond to market demand or pending CRP contract expiration dates—both of which indicate that the transition to a smaller CRP should begin

[26] United States Department of Agriculture, Farm Service Agency. CRP contract expirations by state, 2001–2017. (*http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css*)

in 2012 and be tied to annual CRP acreage expirations. It is clear that a transition to a "right-sized" CRP will be easier to manage if it is coordinated closely with expirations of contracts that contain high-quality land that should return to production.

Another policy option is to permit a penalty-free "early out" for existing CRP contracts so that quality land controlled by landowners that wish voluntarily to exit the CRP may do so more quickly, with the idled land returned to cropping. A penalty-free early out can be designed to ease the transition to a smaller CRP, as well as to surgically select the quality land best suited to return to production.

Further, shifting priorities toward enrollment of priority lands in the form of buffers and wetlands may make an early-out desirable in specific counties. Still another option would be to permit "transition" activities to occur on CRP lands during the last year of the contract, if that land may be transitioning to cropping, haying, grazing or biomass systems.

Nevertheless, the expirations over the next several years clearly are making lowering the CRP acreage cap an attractive budget-reduction strategy, although delays in timing of the farm bill and the current CRP enrollment may make these savings elusive.

Another consideration is the distribution of CRP land across states and counties. In some areas, enrollment exceeds 25 percent of the agricultural land in a county. Permitting whole-farm and whole-field enrollments both increases CRP acreage unnecessarily and encourages enrollment of high-quality, rather than marginal, land. As the table on the following page indicates, 25 counties nationwide currently exceed the maximum acreage cap on enrollments of CRP and WRP acreage, with nearly 225,000 acres exceeding the limitation imposed by Congress.

Summary of CRP Acres Exceeding the 25% County Cropland Limit as of February 2012 [27]

State	County	FSA Cropland Acres	25% Cropland Acres	Active CRP Acres [1]	WRP Acres [1]	CRP + WRP Acres	(CRP + WRP) / Cropland	Acres Over 25%
Alaska	Delta	66,698.6	16,674.7	18,020.9	0.0	18,020.9	27.0%	1,346.2
Colorado	Baca	906,826.6	226,706.7	278,012.7	0.0	278,012.7	30.7%	51,306.0
Colorado	Crowley	73,841.6	18,460.4	23,202.3	0.0	23,202.3	31.4%	4,741.9
Colorado	Kiowa	690,869.3	172,717.3	185,774.1	0.0	185,774.1	26.9%	13,056.8
Colorado	Prowers	580,225.9	145,056.5	163,138.4	97.5	163,235.9	28.1%	18,179.4
Colorado	Pueblo	107,284.4	26,821.1	33,288.9	0.0	33,288.9	31.0%	6,467.8
Idaho	Bannock	200,329.4	50,082.4	58,856.0	0.0	58,856.0	29.4%	8,773.6
Idaho	Power	343,042.6	85,760.7	100,103.5	0.0	100,103.5	29.2%	14,342.8
Kansas	Hamilton	451,441.7	112,860.4	113,528.8	0.0	113,528.8	25.1%	668.4
Mississippi	Adams	29,531.7	7,382.9	4,919.6	4,032.4	8,952.0	30.3%	1,569.1
Mississippi	Grenada	48,849.7	12,212.4	9,860.4	3,905.0	13,765.4	28.2%	1,553.0
Mississippi	Jefferson	33,712.4	8,428.1	4,250.9	5,067.0	9,317.9	27.6%	889.8
Mississippi	Oktibbeha	47,447.4	11,861.9	12,063.9	0.0	12,063.9	25.4%	202.0
Mississippi	Panola	169,739.1	42,434.8	42,376.6	102.1	42,478.7	25.0%	43.9
Mississippi	Wilkinson	43,155.6	10,788.9	7,366.7	4,832.0	12,198.7	28.3%	1,409.8
New Mexico	Guadalupe	6,110.5	1,527.6	1,543.4	0.0	1,543.4	25.3%	15.8
New Mexico	Quay	313,555.6	78,388.9	78,964.9	0.0	78,964.9	25.2%	576.0
North Carolina	Dare	4,781.8	1,195.5	1,413.6	0.0	1,413.6	29.6%	218.1
Texas	Andrews	104,562.3	26,140.6	28,056.8	0.0	28,056.8	26.8%	1,916.2
Texas	Bailey	367,635.8	91,909.0	129,017.6	0.0	129,017.6	35.1%	37,108.6
Texas	Cochran	302,929.5	75,732.4	85,719.3	0.0	85,719.3	28.3%	9,986.9
Texas	Deaf Smith	629,274.9	157,318.7	157,928.5	0.0	157,928.5	25.1%	609.8
Texas	Freestone	2,001.1	500.3	111.3	417.0	528.3	26.4%	28.0
Texas	Randall	293,222.5	73,305.6	74,316.7	0.0	74,316.7	25.3%	1,011.1
Washington	Douglas	566,620.1	141,655.0	190,137.9	0.0	190,137.9	33.6%	48,482.9
Total	**25 Counties**	**6,383,690.1**	**1,595,922.5**	**1,801,973.7**	**18,453.0**	**1,820,426.7**		**224,503.9**

The transition to a smaller, right-sized CRP will be easier for producers and more cost-effective for taxpayers if better land can quickly exit the CRP, highly erodible land remains in the program and CRP continues to attract additional, highly environmentally sensitive acres into the program. The large number of contracts expiring in 2012–2014 provides an opportunity to manage such a transition successfully.

CRP Land Quality

In theory, land currently enrolled in the CRP is all marginal land susceptible to wind or water erosion. However, during the early years of CRP enrollments, whole farms and whole fields were enrolled, which brought in non-highly erodible land and high-quality land. The most recent assessment of the capability and classification of this property is included in the 2007 Natural Resources Inventory (NRI) conducted by USDA's Natural Resources Conservation Service (NRCS). The assessment

[27] MSD FOIA/PA Request 2012–FSA–02018–F.

provides an inventory of "prime farmland" (land capability class I or II and some III) by land use. (See the definitions in *Appendix A.*) NRI data sets are estimates, and with recent trends on CRP expirations and reenrollments, the number of acres of high-quality land enrolled in the program likely has decreased since this data was compiled.

The CRP originally was designed as a dual-purpose program—to remove acreage from production, reducing oversupplies of commodities at that time, and to encourage conservation practices that would reduce erosion on marginal land. Toward those ends, higher priority for participation in CRP is given to land classified as highly erodible on USDA's Erodibility Index, which is defined in NRCS policy as EI = [(R)ainfall factor × (K) Soil Erodibility factor × (LS) Length-Slope factor] ÷ by T. This is somewhat comparable to the eight land classes identified by NRCS. The first four classes categorize arable land, while the remaining four identify land suitable for pasture, range, woodland, grazing, wildlife, recreation and aesthetic purposes. (See *Appendix A* for details on land classifications.)

The best soils are identified as "prime farmland," which NRCS defines as "*land that has the best combination of physical and chemical characteristics for producing food feed, forage, fiber, and oilseed crops and that is available for these uses. It has the combination of soil properties, growing season and moisture supply needed to produce sustained high yields of crops in an economic manner if it is treated and managed according to acceptable farming methods. Generally, prime farmland has an adequate and dependable water supply from precipitation or irrigation, a favorable temperature and growing season, an acceptable level of acidity or alkalinity, an acceptable content of salt or sodium, and few or no rocks. Its soils are permeable to water and air. Prime farmland is not excessively eroded or saturated with water for long periods of time, and it either does not flood frequently during the growing season or is protected from flooding.*" Other considerations in determining prime farmland include land use, frequency of flooding, irrigation, depth to the water table and wind erodibility.[28]

The chart that follows aggregates the land capability classes by current land use from the NRI. The vast majority of the nation's most productive, quality farmland consists of Land Capability Class I, II or III soils. A similar majority of CRP land is also in one of these three land capability classes, implying that it could be brought from the reserve, since market conditions are calling for it, and returned to working lands crop production while utilizing the appropriate conservation tools and techniques.

National Land Use by Soils Capability Class (Acres)[29]

Class	Cropland	CRP Land	Pastureland	Rangeland	Forest Land	Other Rural Land	Total Rural Land
I	**25,264,700**	**194,900**	**1,832,600**	**515,800**	**1,933,400**	**732,200**	**30,473,600**
II c	14,013,100	980,900	568,200	2,536,400	142,000	396,900	18,637,500
II e	79,603,600	4,163,800	19,016,100	9,812,500	26,909,400	4,227,100	143,732,500
II s	14,612,600	248,200	1,671,500	909,500	3,640,900	500,100	21,582,800
II w	58,611,500	1,514,700	10,474,800	4,123,700	18,804,100	1,982,700	95,511,500
Total II	**166,840,800**	**6,907,600**	**31,730,600**	**17,382,100**	**49,496,400**	**7,106,800**	**279,464,300**
III c	2,827,300	783,200	297,100	1,863,000	46,200	121,400	5,938,200
III e	68,451,800	11,862,400	26,881,700	40,344,600	34,198,800	3,451,200	185,190,500
III s	9,228,400	745,800	3,030,900	1,908,300	8,684,200	767,800	24,365,400
III w	27,311,900	839,600	7,308,200	3,324,600	20,583,600	1,857,800	61,225,700
Total III	**107,819,400**	**14,231,000**	**37,517,900**	**47,440,500**	**63,512,800**	**6,198,200**	**276,719,800**
IV c	286,600	25,900	64,600	1,661,700	258,200	69,200	2,366,200
IV e	26,871,600	6,988,700	14,348,900	48,553,100	33,351,500	2,092,000	132,205,800
IV s	5,581,200	514,100	3,443,500	4,163,800	11,043,200	775,200	25,521,000
IV w	5,776,400	277,100	3,929,100	3,476,000	16,219,100	972,200	30,649,900
Total IV	**38,515,800**	**7,805,800**	**21,786,100**	**57,854,600**	**60,872,000**	**3,908,600**	**190,742,900**
V s	50,200	4,300	21,600	106,800	177,600	37,900	398,400
V w	2,530,200	131,200	3,508,400	5,187,400	18,751,500	1,652,700	31,761,400
Total V	**2,580,400**	**135,500**	**3,530,000**	**5,294,200**	**18,929,100**	**1,690,600**	**32,159,800**

[28] *National Soil Survey Handbook* Part 622, Natural Resources Conservation Service website. Accessed 17 September 2011. (*http://soils.usda.gov/technicalhandbook/contents/part622.html*)

[29] United States Department of Agriculture, Natural Resources Conservation Services, National Resources Inventory, 2007.

The 2007 NRI indicates that in some states, significant acreage of prime farmland was in the CRP at that time, along with pastureland and rangeland. This is land that could be responsibly farmed using current technologies, and agronomic and environmental practices (such as no-till) to control erosion or address other limitations, such as water availability. Nationally, 202,425,600 acres of prime farmland are being cropped. In addition, 8,768,000 prime farmland acres were enrolled in CRP as of the 2007 NRI report; 37,237,400 acres were in pastureland; and 20,126,700 acres of prime farmland were considered rangeland.

In the 30 states with the largest CRP enrollments, some 169.9 million acres of prime land were actively being farmed. In addition, there were more than 8.5 million acres in the CRP in these 30 states, 34.2 million acres in pastureland, and 20 million acres in rangeland. Current prices for grains, fiber, feed and forage likely will incentivize more intensive production from all these acres. In fact, the 2007 NRI data indicate that two states—Texas and Kansas—each had more than 1 million acres of prime farmland enrolled in CRP. Surprisingly, of the 8.7 million acres of prime farmland idled in the CRP nationwide as of the 2007 NRI, more than 8.5 million acres were in the 30 largest CRP enrollment states. Good-quality land currently in CRP is highly concentrated in seven states: Kansas, Minnesota, Mississippi, Missouri, North Dakota, Oklahoma and Texas.

The 2012 Farm Bill offers the opportunity to reexamine the CRP and determine ways to target it more directly to meet conservation objectives. Modifying the program to increase the emphasis on environmental protection of the most sensitive acres can serve both budgetary and conservation objectives, while freeing prime farmland to meet increased production needs.

Prime Farmland Cover Use by State for 30 Largest CRP States (Acres) [30]

	Cropland	CRP Land	Pastureland	Rangeland	Forest Land	Other Rural Land	Total Rural Land
Alabama	1,499,200	253,900	1,528,200	2,000	3,510,000	150,300	6,943,600
Arkansas	6,176,900	87,000	2,109,500	6,300	4,362,100	165,100	12,961,800
Colorado	1,495,200	13,800	108,500	18,000	—	7,100	1,642,600
Georgia	2,376,300	165,700	1,098,100	—	3,538,700	135,400	7,314,200
Idaho	2,688,400	133,800	210,300	62,400	26,800	27,600	3,149,300
Illinois	1,853,600	292,500	795,500	—	796,700	345,600	20,753,900
Indiana	10,742,500	105,000	823,700	—	838,000	282,300	12,791,500
Iowa	16,421,600	294,900	900,000	—	398,700	469,100	18,484,300
Kansas	16,144,500	1,080,100	1,395,400	3,964,100	505,500	319,000	23,408,600
Kentucky	3,076,000	148,200	1,461,100	—	684,400	160,800	5,530,500
Louisiana	4,603,800	160,500	1,731,700	20,100	5,184,600	190,400	11,891,100
Michigan	4,994,100	95,000	691,400	—	1,469,800	272,300	7,522,600
Minnesota	15,100,000	596,700	1,324,600	—	2,992,900	581,200	20,595,400
Mississippi	3,620,700	487,300	1,528,400	—	4,247,000	145,400	10,028,800
Missouri	8,964,700	493,300	2,898,400	40,900	1,477,100	197,900	14,072,300
Montana	795,300	—	104,500	56,200	1,100	20,000	977,100
Nebraska	10,549,100	222,500	438,100	715,100	102,200	350,000	12,377,000
New Mexico	109,000	11,000	16,600	—	—	1,100	137,700
N. Dakota	9,780,700	875,600	141,600	515,800	72,800	301,300	11,687,800
Ohio	8,751,500	162,300	794,700	—	1,300,600	270,000	11,281,100
Oklahoma	6,292,000	416,500	3,779,500	2,750,100	858,900	160,400	14,257,400
Oregon	2,096,500	181,500	436,000	312,500	272,000	128,200	3,426,700
Pennsylvania	1,731,100	10,100	428,100	—	1,394,300	149,300	3,712,900
S. Dakota	5,202,600	277,300	290,500	488,800	16,700	222,200	6,498,100
Tennessee	2,480,000	105,100	1,691,400	—	1,357,000	192,100	5,825,600
Texas	14,699,200	1,540,200	6,180,700	11,004,300	2,205,800	510,500	36,140,700
Utah	589,500	44,300	111,800	3,400	300 4,100	753,400	
Washington	1,297,000	87,100	243,800	42,800	470,000	94,500	2,237,200
Wisconsin	5,501,300	157,800	944,000	—	1,794,400	279,400	8,676,900
Wyoming	309,200	4,400	3,200	12,000	—	400	329,200
Top 30	**169,941,500**	**8,503,400**	**34,209,300**	**20,014,800**	**39,878,400**	**6,133,000**	**295,409,300**
U.S.	**202,425,600**	**8,768,000**	**37,237,400**	**20,126,700**	**50,170,500**	**6,930,600**	**325,658,800**

As stated earlier, much of the prime land contained within CRP is concentrated in the Corn Belt, and Plains States. It appears that significant acreage of Cass I, II and III land needs to be rotated out of the program, to be replaced by highly erodible land from Class IV through VIII There is clearly a need to continue with a vibrant CRP; however, it needs to be better targeted and to be enrolling the most highly erodible land and protecting wetlands.

[30] United States Department of Agriculture, Natural Resources Conservation Services, National Resources Inventory, 2007.

Land Capability Class by Farm Production Region for Highly Erodible and Non-Highly Erodible Land in CRP[31]

Farm Production Region	Land Capability Class, Non-Highly Erodible Land (EI<8)			Land Capability Class, Highly Erodible Land (EI≥8)			Total CRP
	I, II & III	IV, V, VI, VII & VIII	Total	I, II & III	IV, V, VI, VII & VIII	Total	
Appalachian	163,900	—	175,400	297,000	197,300	**494,300**	**669,700**
Corn Belt	1,157,100	87,500	1,244,600	1,897,400	848,400	2,745,800	**3,990,400**
Delta States	586,000	123,000	709,000	313,500	140,400	453,900	**1,162,900**
Lake States	1,180,800	225,400	1,406,200	295,300	485,200	780,500	**2,186,700**
Mountain	1,335,900	651,700	1,987,600	2,387,000	3,256,300	5,643,300	**7,630,900**
Northeast	42,000	—	48,900	62,700	—	92,200	**141,100**
Northern Plains	4,242,300	598,200	4,840,500	2,053,900	2,022,400	4,076,300	**8,916,800**
Pacific	663,600	436,800	1,100,400	375,900	584,800	960,700	**2,061,100**
Southeast	603,300	84,500	687,800	218,300	104,200	322,500	**1,010,300**
Southern Plains	1,608,800	—	1,689,200	1,848,800	1,542,300	3,391,100	**5,080,300**
Total	**11,583,700**	**2,305,900**	**13,889,600**	**9,749,800**	**9,210,800**	**18,960,600**	**32,850,200**

Another way to analyze the land quality question in CRP is to examine the quantity of non- highly erodible land (an erodibility index of less than 8) and the amount of highly erodible land (an erodibility index of 8 or greater) enrolled in the reserve program. The total number of acres of Non-Highly erodible land enrolled in CRP from state-to-state varies significantly, and is best analyzed over the past 5 years for which data is available. As the data table on the following page indicates, the amount of non-highly erodible land enrolled by state ranges from as low as 0.1 percent to 70 percent. While it should be noted that filter strips and other continuous enrollments will contain non-highly erodible property, it is unlikely that accounts for the quantity of acreage in states where non-highly-erodible land exceeds 10 percent of the total state enrollments. Additional data tables on CRP Erodibility Index from recent signups can be found in *Appendix D.*

[31] Graph provided upon request by Natural Resource Inventory. According to USDA the farming regions are as follows. The Appalachian states include North Carolina, Tennessee, Kentucky, Virginia and West Virginia. The Corn Belt includes Iowa Missouri, Indiana, Illinois and Ohio. The Delta States are Louisiana, Mississippi and Arkansas. The Lake States are Minnesota, Wisconsin, and Michigan. Mountain Region includes Idaho, Montana, Wyoming, Nevada, Colorado, Utah, Arizona and New Mexico. The Northeast region includes all states North and East of Pennsylvania and Maryland. The Northern Plains are North Dakota, South Dakota, Nebraska and Kansas. Pacific is Washington, Oregon and California. Southeast is Florida, Georgia, Alabama and South Carolina. The Southeastern Plains is Texas and Oklahoma.

CRP Acres with an Erodibility Index (EI) Rating of Less Than Eight in the Top 30 States Compared to Percentage of States' Total CRP Acres

	2006		2007		2008		2009		2010	
	Acres	Percent of Total	Acres	Percent of Total	Acres	Percent of Total	Acres	Percent of Total	Acres	Percent of Total
Alabama	84,795	17.2%	84,593	17.1%	102,204	22%	101,954	22.8%	60,165	14.4%
Arkansas	77,216	35%	80,443	33.8%	139,592	59.7%	154,314	62%	54,358	21.8%
Colorado	70,196	2.9%	74,407	3%	107,888	4.4%	113,800	4.7%	55,029	2.7%
Georgia	146,075	47.6%	146,948	47%	190,256	57.6%	198,828	59.4%	128,921	40.1%
Idaho	266,227	33.2%	266,480	32.3%	277,845	36%	273,943	36.2%	221,692	30.9%
Illinois	325,276	30.9%	324,902	29.8%	412,487	38.8%	416,550	40%	42,025	4.1%
Indiana	104,208	33.8%	105,945	33.4%	136,813	46.3%	145,327	49.9%	43,450	15.1%
Iowa	390,996	19.9%	387,316	19.6%	523,918	28.9%	550,633	32.3%	68,068	4.1%
Kansas	615,195	19.9%	682,228	20.9%	804,102	25.7%	807,153	26%	574,927	20.6%
Kentucky	37,099	10.4%	36,981	10.3%	62,866	16.3%	70,990	18.2%	3,063	0.8%
Louisiana	138,809	48.1%	138,206	44.6%	196,445	64.5%	198,193	64.6%	127,320	40%
Michigan	187,899	69.1%	187,807	68%	200,756	77.3%	187,183	77.9%	98,649	42.3%
Minnesota	1,416,344	78.8%	1434,056	78.3%	1,493,019	84%	1,441,395	85%	976,401	59.4%
Mississippi	266,499	28%	261,777	27.4%	340,309	38%	344,573	38.9%	158,523	18.4%
Missouri	102,237	6.4%	101,267	6.3%	148,926	10.2%	158,361	11.1%	49,934	3.5%
Montana	164,962	4.7%	165,795	4.7%	210,045	6.3%	217,289	6.7%	135,842	4.4%
Nebraska	117,855	9.1%	124,571	9.2%	196,652	75.9%	214,937	17.8%	71,999	6.5%
New Mexico	1,003	0.1%	1,003	0.1%	6,463	1.1%	7,249	1.2%	1,968	0.3%
N. Dakota	1,819,440	53.9%	1,829,484	53.9%	1,664,141	55.9%	1,607,860	56.3%	1,287,426	47.3%
Ohio	118,713	36%	123,300	34%	211,420	60%	215,554	62%	66,454	19.3%
Oklahoma	127,180	12%	144,643	13.4%	141,049	14.3%	137,413	14.3%	116,075	13.4%
Oregon	37,189	6.8%	40,157	7%	71,043	12%	70,353	12.5%	27,318	4.9%
Pennsylvania	6,340	2.8%	6,194	2.6%	29,870	13%	30,626	13.7%	169	<.1%
S. Dakota	1,030,812	68%	1,046,222	67%	923,723	70.9%	881,448	70.5%	528,591	47.4%
Tennessee	17,220	6.2%	17,156	6.1%	25,847	11%	26,406	11.7%	5,374	2.4%
Texas	971,047	24%	990,895	24.3%	1,015,263	25.7%	1,013,832	26.3%	740,132	22.3%
Utah	137,026	66.6%	139,899	67%	132,446	66.5%	129,958	66.7%	96,761	66.5%
Washington	667,610	45.3%	673,341	43.2%	693,420	45%	663,641	43.8%	569,222	39.4%
Wisconsin	148,886	24.1%	143,318	23.6%	149,489	28.4%	136,182	29.6%	73,134	17%
Wyoming	3,828	1.3%	3,775	1.3%	7,218	2.6%	7,149	2.6%	182	<.1%
Top 30 Total	**9,598,182**		**9,763,109**		**10,615,515**		**10,523,094**		**6,383,172**	
U.S. Total	**9,877,054**	**27.4%**	**1,0039,743**	**27.3%**	**10,982,134**	**31.7**	**10,890,636**	**32.2%**	**6,498,629**	**20.7%**

It is clear that greater scrutiny is needed by policy makers and conservationists on the matter of quality lands in the CRP program. Neither a land classification system nor an Erodibility Index fully addresses the questions of land quality; however, they are information points that allow for informed decisions. A new philosophy of a vibrant CRP that minimizes unnecessary idling of quality land is needed; the existing tools of land classifications, soils mapping and the EI can work together to properly inform that system.

The Senate Committee-passed version has furthered the debate on land quality and use by merging the old rental aspects of the Grassland Reserve Program into the CRP. The current farm bill process is leaning toward a CRP that is friendlier to livestock production. The Senate package has eased restrictions on haying and grazing of CRP—importantly, penalties for incidental grazing of filter and buffer strips when gazing crop aftermath have been eased.

The Senate version of the farm bill also calls for 1.5 million acres of CRP or CRP-eligible grassland to be enrolled in a new sub-program that will fully allow haying and grazing on an annual basis. (The contract payment will be about 75 percent of the normal CRP payment rate.) Details on this offering remain vague at this time, although USDA would be expected to offer an annual signup. While existing CRP land expiring from the program would be a priority, all grassland would be eligible. This may prove to be an important program for preservation of existing grassland resources, but will greatly complicate the management challenge of CRP. Most significantly, this marks the continued transition of the CRP from a strict land-idling program to one that supports working lands conservation.

Technological Advances in Conservation

Conservation technology also must be factored into the mix. By and large, technological advances that have benefited production agriculture over the past 10 to 15 years have been interwoven and interlinked. For example, with increasing use of insect-resistant and herbicide-tolerant seed varieties comes a corresponding increase in the use of conservation tillage, particularly no-till. No-till acres more than doubled around the world from 1999 to 2009, rising particularly in Brazil and Argentina, which fall next in line behind the U.S. in use of no-till.[32] In addition, no-till cuts fuel consumption by as much as 5.7 gallons per cultivated acre.[33] The positive water-quality benefits of this technological advancement rarely are recognized. In addition, reduced tillage—and no-till in particular—helps prevent soil erosion, improves moisture and nutrient content in the soil and decreases the likelihood of flooding. The ongoing practice of no-till leaves more crop residue on the land to eventually help return the soil to near-native condition.[34] In fact, technological improvements now make it possible to manage lands to increase soil quality and reduce erosion, improve water quality and sequester carbon while producing food and feed. The net result of modern agriculture techniques combine to make U.S. production more sustainable than it was two and half decades ago when CRP was established.

TABLE 1

Estimated planted acreage with no tillage operations for eight U.S. crops

Crop	No tillage operations (most recent crop survey year)	No tillage operations, 2009 (estimate)[1]	Planted acres, 2009	Estimated planted acres with no tillage operations, 2009 (column 2 or 3 × column 4)
	—Percent of crop acres—		*—Million acres—*	
Barley	27.6 (2003)	36.6	3.6	1.0–1.3

[32] Sexton, Steven and Zilberman, David. 2010. *Agricultural Biotechnology Can Help Mitigate Climate Change. Agricultural and Resource Economics Update.* Giannini Foundation of Agricultural Economics, University of California, 14 (Nov/Dec), no. 2:1.

[33] Fawcett, Richard and Towery, Dan. No date given. *Conservation Tillage and Plant Biotechnology: How New Technologies Can Improve the Environment by Reducing the Need to Plow,* 11. Conservation Technology Information Center at Purdue University. Accessed 29 June 2011. (*www.ctic.purdue.edu*)

[34] *Ibid.,* 2.

TABLE 1—CONTINUED

Estimated planted acreage with no tillage operations for eight U.S. crops

Crop	No tillage operations (most recent crop survey year)	No tillage operations, 2009 (estimate)[1]	Planted acres, 2009	Estimated planted acres with no tillage operations, 2009 (column 2 or 3 × column 4)
Corn	23.5 (2005)	29.5	86.5	20.3–25.5
Cotton	20.7 (2007)	23.7	9.1	1.9–2.2
Oats	13.8 (2005)	19.8	3.4	0.5–0.7
Rice	11.8 (2006)	16.3	3.1	0.4–0.5
Sorghum	25.0 (2003)	34.0	6.6	1.6–2.3
Soybeans	45.3 (2006)	49.8	77.4	35.1–38.5
Wheat	21.9 (2004)	29.4	59.1	12.9–17.4
Total all eight crops		35.52	248.9	73.7–88.3

[1] Assuming 1.5 percentage-point growth per year.
[2] Average, weighted by 2009 acres.
Note: See figure 1 for no-tillage definition.
Source: USDA, Economic Research Service analysis of Agricultural Resource Management Survey data. Crop acreage data obtained from USDA, National Agricultural Statistics Service, at: *http://www.nass.usda.gov/Data__and__Statistics/Quick__Stats/index.asp/*.

As the above table shows, an ERS analysis of no-till and conservation tillage indicates that steady, annual increases in reduced tillage are occurring nationally, with significant acreages of all crops now devoted to either no-till or some version of reduced tillage. In fact, the ARMS data may understate the extent of residue management. What analysts are observing from the CEAP survey data was that farmers will report conservation tillage as conventional tillage because it is conventionally used. NRCS discovered this when it looked at the rotations and the operations used in production, which also was provided by the farmer. In essence, to many farmers, conservation tillage is the new conventional tillage.

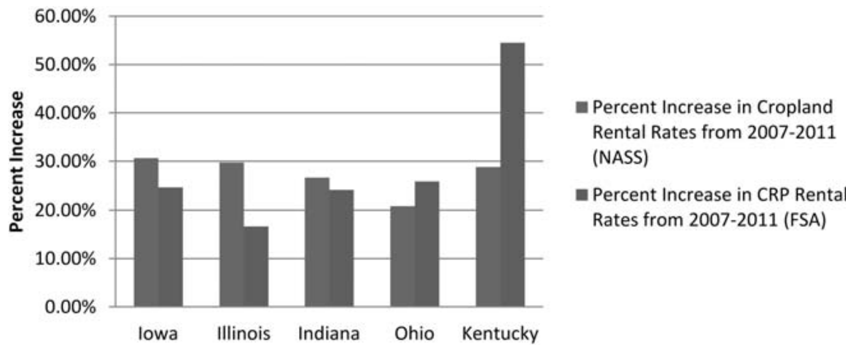
Battling for Acres

As the world's food needs increase, the battle for acres translates quickly into increasing rental rates for the land base on which a producer can plant crops. The decisions made by Congress on CRP and other land-use policies, compounded by decisions made by USDA policymakers, will determine the average CRP rental rate at the county, state and national level. A rough estimate of potential CRP rental rates can be made by comparing a state's NASS average cropland rental rates to the average CRP rental rate of the FSA.

Obviously, productivity and rainfall lead to rather dramatic differences in rental rates within crop-producing regions. However, analysis of the data shows that some states historically have operated the CRP with a statewide rental rate very close to the NASS average, while other states have operated with a rate only a few dollars less than the NASS average. Recent escalation of rental rates has widened the gap between NASS-observed rental levels and general CRP rates. However, analysis shows that some states have attempted to increase CRP rental rates through the general sign-up process, and that many states are using the continuous-enrollment process to routinely meet or exceed county average rental rates. This suggests that these determinations are influenced strongly by decisions by state FSA offices and committees.

Except for the most environmentally sensitive acreage, it is important to avoid a situation where government attempts to outbid the market for quality farmland. Limiting CRP rental rate increases and reducing CRP acreage could help prevent this problem.

Percentage Increases in CRP Rental Rates for the 5 Highest-Paying CRP States Compared to NASS Survey Data



Examining the CRP rental rates for the five highest-paying CRP rental rate states shows the extent to which rental rates are increasing rapidly. Further, in the case of two of the five states shown above with the highest rental rates during the period 2007–2011, CRP rate increases were actually greater than the statewide NASS trend.

Average Rental Rates for the 30 Largest CRP States for ALL CRP and Cropland ($/Acre) [35]

	2007		2008		2009		2010		2011	
	CRP	NASS	CRP	NASS	CRP	NASS	CRP	NASS	CRP	NASS
Alabama	45.12	43.00	45.21	43.00	45.25	48.00	45.33	48.00	46.18	51.00
Arkansas	50.57	74.00	51.91	79.50	53.37	82.50	54.78	86.00	61.43	87.50
Colorado	31.34	37.50	32.01	41.00	32.19	62.50	32.21	62.50	33.49	65.00
Georgia	39.89	60.00	40.23	65.00	42.81	76.50	43.49	80.00	48.53	86.50
Idaho	39.1	93.00	41.12	98.50	41.75	130.00	41.6	132.00	47.25	138.00
Illinois	102.33	141.00	103.36	163.00	105.94	163.00	107.74	169.00	119.37	183.00
Indiana	91.26	120.00	92.34	135.00	97.16	139.00	101.82	141.00	113.36	152.00
Iowa	105.34	150.00	106.16	170.00	110.87	175.00	115.8	176.00	131.41	196.00
Kansas	39.07	45.00	39.26	47.50	39.35	48.00	39.54	50.00	40.55	50.50
Kentucky	75.12	82.00	76.3	78.50	97.82	93.50	103.63	103.00	116.08	105.00
Louisiana	50.53	69.00	52.35	73.00	53.15	73.50	53.69	74.50	62.99	74.00
Michigan	74.35	73.00	75.88	78.00	79.16	81.00	82.92	80.50	90.11	90.00
Minnesota	59.56	94.00	60.28	109.00	61.74	113.00	64.23	121.00	69.81	135.00
Mississippi	42.12	71.50	42.65	80.50	44.37	82.50	44.8	87.50	50.65	94.00
Missouri	66.49	N/A	66.97	83.00	69.21	94.50	70.09	98.50	79.32	106.00
Montana	33.66	23.00	33.62	24.50	32.9	28.50	32.71	31.00	31.87	30.00
Nebraska	56.99	103.00	56.94	121.00	56.98	128.00	57.55	135.00	62.42	150.00
New Mexico	31.45	N/A	31.46	48.00	32.7	40.50	32.76	50.00	35.57	67.00
N. Dakota	33.15	41.00	33.25	42.50	33.72	45.50	34.07	46.50	37.34	51.50
Ohio	96.41	91.00	102.08	100.00	109.16	101.00	112.78	101.00	121.45	110.00
Oklahoma	32.58	N/A	32.81	29.50	32.97	29.50	32.94	29.50	33.83	29.50
Oregon	49.07	97.00	49.41	107.00	49.35	141.00	49.45	137.00	54.53	134.00
Pennsylvania	87.27	39.00	88.6	55.00	96.84	55.00	100.45	56.50	104.33	58.50
S. Dakota	41.76	N/A	42.26	65.00	44.41	72.50	45.98	72.50	59.4	79.00
Tennessee	58.84	67.00	59.33	68.50	61.32	73.00	62.18	78.00	71.75	79.50
Texas	35.28	29.00	35.31	31.50	35.4	34.50	35.39	36.00	36.54	38.00
Utah	30.34	N/A	30.36	42.00	30.44	52.00	30.43	49.50	32.18	58.50
Washington	53.03	N/A	53.73	111.00	53.82	171.00	54.39	176.00	56.17	176.00
Wisconsin	69.62	72.00	70.37	85.00	73.23	87.00	75.59	92.00	83.22	99.00
Wyoming	27.59	N/A	27.62	34.50	27.65	53.50	27.7	47.00	26.84	58.00
Top 30 Avg.	**54.97**	**73.75**	**55.77**	**76.98**	**58.17**	**85.83**	**59.53**	**88.23**	**65.27**	**94.40**
U.S. Average	**48.95**	**77.50**	**49.47**	**85.50**	**50.76**	**99.00**	**51.5**	**102.00**	**57.21**	**111.00**

[35] United States Department of Agriculture (USDA) Farm Service Agency, CRP enrollments and rental payments by state, 1986–2011. *http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css;*

USDA National Agricultural Statistics Service, Quick Stats 2.0. *http://quickstats.nass.usda.gov/*. Accessed February 2012. Under Program: select Survey, under Sector: select Cropland—Expense, measured in $/Acre.

Average Rental Rates for the 30 Largest CRP States for GENERAL CRP Sign-Up and Cropland ($/acre) [36]

	2007		2008		2009		2010		2011		2012	
	NASS	CRP	NASS	CRP	NASS	CRP	NASS	CRP	NASS	CRP	NASS	CRP
Alabama	43.00	44.84	43.00	44.75	48.00	44.77	48.00	45.28	51.00	45.52	—	45.57
Arkansas	74.00	43.61	79.50	44.31	82.50	44.31	86.00	47.85	87.50	49.33	—	49.32
Colorado	37.50	31.46	41.00	31.50	62.50	31.47	62.50	31.98	65.00	32.61	—	32.62
Georgia	60.00	39.95	65.00	40.46	76.50	40.56	80.00	42.35	86.50	44.09	—	44.09
Idaho	93.00	38.99	98.50	39.24	130.00	39.31	132.00	41.60	138.00	44.48	—	44.45
Illinois	141.00	80.35	163.00	81.50	163.00	82.01	169.00	86.91	183.00	90.08	—	90.09
Indiana	120.00	75.82	135.00	78.51	139.00	79.69	141.00	83.41	152.00	85.96	—	86.00
Iowa	150.00	91.47	170.00	95.61	175.00	98.54	176.00	108.28	196.00	111.06	—	110.97
Kansas	45.00	38.69	47.50	38.72	48.00	38.69	50.00	39.10	50.50	39.44	—	39.43
Kentucky	82.00	69.20	78.50	70.27	93.50	70.51	103.00	75.75	105.00	80.19	—	80.10
Louisiana	69.00	45.66	73.00	46.18	73.50	46.27	74.50	47.28	74.00	47.98	—	48.00
Michigan	73.00	57.98	78.00	59.75	81.00	61.61	80.50	64.42	90.00	66.21	—	66.21
Minnesota	94.00	51.98	109.00	52.54	113.00	53.85	121.00	55.25	135.00	56.86	—	56.78
Mississippi	71.50	38.52	80.50	39.82	82.50	39.94	87.50	42.08	94.00	44.37	—	44.38
Missouri	N/A	65.27	83.00	66.96	94.50	67.24	98.50	71.08	106.00	76.69	—	76.63
Montana	23.00	33.27	24.50	32.82	28.50	32.62	31.00	31.98	30.00	31.75	—	31.76
Nebraska	103.00	52.66	121.00	52.23	128.00	51.82	135.00	54.21	150.00	55.22	—	55.09
New Mexico	N/A	31.35	48.00	32.60	40.50	32.66	50.00	33.45	67.00	35.46	—	35.42
N. Dakota	41.00	32.77	42.50	33.08	45.50	33.10	46.50	33.68	51.50	34.24	—	34.24
Ohio	91.00	73.39	100.00	75.70	101.00	76.19	101.00	77.56	110.00	78.33	—	78.29
Oklahoma	N/A	32.67	29.50	32.87	29.50	32.84	29.50	33.44	29.50	33.68	—	33.67
Oregon	97.00	47.23	107.00	46.88	141.00	46.93	137.00	49.29	134.00	51.85	—	51.85
Pennsylvania	39.00	40.37	55.00	44.19	55.00	46.20	56.50	47.84	58.50	48.36	—	48.37
S. Dakota	N/A	38.51	65.00	39.26	72.50	39.00	72.50	42.93	79.00	44.52	—	44.43
Tennessee	67.00	57.31	68.50	58.90	73.00	59.31	78.00	63.76	79.50	68.60	—	68.61
Texas	29.00	35.28	31.50	35.36	34.50	35.36	36.00	35.89	38.00	36.32	—	36.33
Utah	N/A	30.30	42.00	30.34	52.00	30.33	49.50	31.02	58.50	32.17	—	32.18
Washington	N/A	51.67	111.00	51.72	171.00	52.30	176.00	53.53	176.00	53.94	—	53.94
Wisconsin	72.00	65.85	85.00	68.07	87.00	69.44	92.00	72.99	99.00	75.89	—	75.83
Wyoming	N/A	27.16	34.50	27.14	53.50	27.18	47.00	26.58	58.00	26.30	—	26.30
Top 30 Total	**73.75**	**48.79**	**76.98**	**49.71**	**85.83**	**50.12**	**88.23**	**52.36**	**94.40**	**54.05**	**—**	**54.03**
U.S. Total	**77.50**	**43.81**	**85.50**	**44.07**	**99.00**	**44.00**	**102.00**	**45.93**	**111.00**	**47.33**	**—**	**47.31**

CRP General Sign-ups

There is a downward trend in CRP enrollments and reenrollments because of market incentives for increased production. There is a clear need for CRP policy and management strategies that will encourage good, high-quality land to exit CRP. USDA will need to closely monitor state and local decisions to facilitate this transition.

As witnessed in the prior section on rental rates, state efforts by FSA or other groups will influence CRP rental rates greatly. By statute, FSA is directed not to exceed local rental rates because of concerns raised in the CRP's early years about competition for land. However, until recently, Texas still was offering CRP rates higher than the state average rental rate. The market clearly will work and govern which land comes back into production, unless it is outbid by the government. In some states, FSA management scrutiny may be warranted to ensure that bonus incentive payments and continuous enrollments are not used to escalate CRP rental rates on high- quality farmland that should stay in production. Clear USDA policy direction to discourage enrollment of high-quality land or restrictions on such enrollments appears to be necessary.

Parties interested in general sign-up management in the future should track decisions on several key issues:

- Rental rates.
- National and county caps on CRP enrollments.
- Limitations on use of CRP land (haying, grazing and biomass).
- State enhancements for the Conservation Reserve Enhancement Program (CREP).
- Re-enrollment policy on existing CRP contracts.

Most of these factors are determined by management decisions at USDA rather than legislative direction provided by Congress.

[36] United States Department of Agriculture (USDA) Farm Service Agency, CRP enrollments and rental payments by state, 1986–2011. *http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css;*
USDA National Agricultural Statistics Service, Quick Stats 2.0. *http://quickstats.nass.usda.gov/*. Accessed February 2012. Under Program: select Survey, under Sector: select Cropland—Expense, measured in $/Acre.

General Sign-up CRP Acres for 30 Largest CRP States[37]

	2007	2008	2009	2010	2011	2012
Alabama	456,215	421,476	402,247	349,445	311,227	310,284
Arkansas	156,252	144,929	142,619	123,377	116,215	115,632
Colorado	2,446,256	2,408,444	2,386,172	2,053,180	2,133,123	2,130,490
Georgia	300,210	276,796	270,201	227,464	219,470	219,208
Idaho	797,221	740,461	724,928	615,139	571,421	571,789
Illinois	664,822	626,853	595,394	575,598	558,151	556,503
Indiana	212,809	188,725	173,387	164,209	155,430	154,969
Iowa	1,427,122	1,262,873	1,132,364	1,065,806	1,042,087	1,036,018
Kansas	3,166,748	3,027,315	2,989,950	2,638,732	2,371,656	2,362,233
Kentucky	284,934	242,731	226,646	197,998	172,096	170,811
Louisiana	226,651	218,459	216,535	198,219	191,833	191,505
Michigan	191,660	172,530	150,319	134,492	126,611	125,903
Minnesota	1,453,624	1,383,290	1,281,017	1,189,519	1,091,009	1,085,964
Mississippi	780,437	712,364	696,643	639,166	607,635	605,712
Missouri	1,463,885	1,303,880	1,256,536	1,192,806	1,117,757	1,113,130
Montana	3,316,018	3,173,339	3,083,687	2,762,928	2,375,820	2,366,399
Nebraska	1,197,999	1,089,976	1,042,080	919,714	828,630	823,083
New Mexico	585,320	564,771	561,250	448,542	414,457	412,018
N. Dakota	3,211,448	2,792,402	2,646,407	2,347,868	2,053,462	2,047,423
Ohio	222,392	199,104	188,062	170,631	162,380	161,294
Oklahoma	1,059,471	972,780	950,499	859,552	814,130	812,029
Oregon	526,538	517,287	512,893	501,479	494,671	494,441
Pennsylvania	51,445	29,791	19,529	13,828	12,719	12,656
S. Dakota	1,342,533	1,076,715	999,684	778,912	674,999	675,573
Tennessee	255,000	210,713	199,935	177,782	162,299	160,967
Texas	4,019,472	3,882,469	3,794,317	3,390,273	3,240,869	3,228,260
Utah	208,376	198,663	194,518	174,663	178,631	178,172
Washington	166,727	1,424,667	1,402,849	1,324,449	1,322,143	1,321,276
Wisconsin	540,826	459,466	391,052	333,089	301,412	299,456
Wyoming	277,829	269,519	264,133	219,075	199,285	199,230
Top 30 Total	**31,010,240**	**29,992,788**	**28,895,853**	**25,787,935**	**24,021,628**	**23,942,428**
U.S. Total	**32,924,523**	**30,541,941**	**29,413,441**	**26,229,936**	**24,413,074**	**24,335,005**

Average CRP Rental Rates for General Sign-up for 30 Largest CRP States ($/acre)[38]

	2007	2008	2009	2010	2011	2012
Alabama	44.84	44.75	44.77	45.28	45.52	45.57
Arkansas	43.61	44.31	44.31	47.85	49.33	49.32
Colorado	31.46	31.50	31.47	31.98	32.61	32.62
Georgia	39.95	40.46	40.56	42.35	44.09	44.09
Idaho	38.99	39.24	39.31	41.60	44.48	44.45
Illinois	80.35	81.50	82.01	86.91	90.08	90.09
Indiana	75.82	78.51	79.69	83.41	85.96	86.00
Iowa	91.47	95.61	98.54	108.28	111.06	110.97
Kansas	38.69	38.72	38.69	39.10	39.44	39.43
Kentucky	69.20	70.27	70.51	75.75	80.19	80.10
Louisiana	45.66	46.18	46.27	47.28	47.98	48.00
Michigan	57.98	59.75	61.61	64.42	66.21	66.21
Minnesota	51.98	52.54	53.85	55.25	56.86	56.78
Mississippi	38.52	39.82	39.94	42.08	44.37	44.38
Missouri	65.27	66.96	67.24	71.08	76.69	76.63
Montana	33.27	32.82	32.62	31.98	31.75	31.76
Nebraska	52.66	52.23	51.82	54.21	55.22	55.09
New Mexico	31.35	32.60	32.66	33.45	35.46	35.42
N. Dakota	32.77	33.08	33.10	33.68	34.24	34.24
Ohio	73.39	75.70	76.19	77.56	78.33	78.29
Oklahoma	32.67	32.87	32.84	33.44	33.68	33.67
Oregon	47.23	46.88	46.93	49.29	51.85	51.85
Pennsylvania	40.37	44.19	46.20	47.84	48.36	48.37
S. Dakota	38.51	39.26	39.00	42.93	44.52	44.43
Tennessee	57.31	58.90	59.31	63.76	68.60	68.61
Texas	35.28	35.36	35.36	35.89	36.32	36.33
Utah	30.30	30.34	30.33	31.02	32.17	32.18
Washington	51.67	51.72	52.30	53.53	53.94	53.94
Wisconsin	65.85	68.07	69.44	72.99	75.89	75.83
Wyoming	27.16	27.14	27.18	26.58	26.30	26.30
Top 30 Total	**48.79**	**49.71**	**50.12**	**52.36**	**54.05**	**54.03**

[37] United States Department of Agriculture, Farm Service Agency, 2007, 2008 and 2009 come from the annual summaries and 2010 and 2011 come from the December monthly summaries for each year and 2012 comes from the April monthly summary. *http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css.*

[38] United States Department of Agriculture, Farm Service Agency, 2007, 2008 and 2009 come from the annual summaries and 2010 and 2011 come from the December monthly summaries for each year and 2012 comes from the April monthly summary. *http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css.*

Average CRP Rental Rates for General Sign-up for 30 Largest CRP States ($/acre) [38]—Continued

	2007	2008	2009	2010	2011	2012
U.S. Total	**43.81**	**44.07**	**44.00**	**45.93**	**47.33**	**47.31**

Continuous CRP Enrollments

In addition to periodic general sign-ups, the CRP provides for continuous sign-up for farmers to enroll in specific conservation practices, including Conservation Reserve Enhancement Program (CREP) and State Acres for Wildlife Enhancement (SAFE). Generally, these programs are targeted more at specific conservation needs. But their impacts need to be considered as part of overarching CRP policy for the future.

Competitive bidding is not involved for Continuous CRP Enrollments, and offers under continuous sign-up automatically are accepted for 10 to 15 year contracts, provided the land and the producer meet eligibility requirements specified for CRP. This aspect of the program has not been directly authorized by Congress, but was created using administrative discretionary authorities to strategically protect highly valuable ecosystem services.

Payments under continuous sign-up include rental payments, up to 50 percent cost-share assistance for installing conservation practices, additional financial incentives for priority conservation practices and, in some cases, signing incentive payments and conservation practice incentive payments.

Practices eligible for continuous sign-up include: [39]

- Riparian buffers.
- Wildlife habitat buffers.
- Filter strips.
- Wetland restoration.
- Grass waterways.
- Shelterbelts.
- Living snow fences.
- Contour grass strips.
- Salt tolerant vegetation.
- Shallow water areas for wildlife.

As of April 2011, CRP included 5 million acres that have been enrolled under continuous sign-up.[40] Many conservation leaders have expressed concerns that adequate CRP acreage should be reserved each year to ensure that high-value, continuous enrollments can be accepted. As the continuous enrollments now are poised to exceed 5 million acres, it has been suggested that as much as 8 million acres may need to be reserved for high-priority enrollments. This will be of increased import as high-quality land transitions out of CRP and as a right-sized CRP attracts the fragile acres that will need to be retained in the program, including filter strips, grassed waterways and wetland filters.

Continuous CRP Acres for the 30 Largest CRP States [41]

	2007	2008	2009	2010	2011
Alabama	36,333	42,235	43,606	48,980	50,006
Arkansas	81,609	88,878	104,358	125,664	134,075
Colorado	25,838	29,456	33,441	47,463	49,633
Georgia	12,295	53,166	64,030	87,511	96,726
Idaho	26,881	29,277	29,988	49,292	75,830
Illinois	421,551	435,528	441,213	455,519	470,957
Indiana	102,904	106,251	117,299	122,242	124,534
Iowa	471,122	546,750	571,556	614,934	615,937

[39] "Conservation Reserve Program Continuous Sign-up," Farm Service Agency fact sheet, June 2006. Accessed 14 September 2011. (*www.fsa.usda.gov/FSA/newsReleases?=newsroom&subject=landing&topic=pfs&newstype=detail&item=pf__20060601__consv__en__crpcsup06.html*)

[40] "The Conservation Reserve Program: 41st Signup Results," Farm Service Agency, June 2011. Accessed 7 September 2011. (*www.fsa.usda.gov/Internet/FSA__File/crpsignupresults.pdf*)

[41] United States Department of Agriculture, Farm Service Agency, 2007, 2008 and 2009 come from the annual summaries and 2010 and 2011 come from the December monthly summaries for each year. (*http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css*)

Continuous CRP Acres for the 30 Largest CRP States[41]—Continued

	2007	2008	2009	2010	2011
Kansas	91,456	97,502	108,230	129,777	164,910
Kentucky	73,417	142,235	163,193	165,762	162,892
Louisiana	83,197	85,935	89,966	127,525	133,483
Michigan	84,453	86,949	89,878	93,990	95,879
Minnesota	339,116	390,699	413,771	456,106	475,648
Mississippi	174,682	182,550	187,914	208,025	221,790
Missouri	129,019	149,149	163,811	173,521	176,011
Montana	164,688	117,859	118,663	131,225	131,595
Nebraska	139,499	143,677	162,036	174,613	177,343
New Mexico	5,079	5,375	5,280	5,280	6,104
N. Dakota	160,792	183,977	206,079	309,849	339,261
Ohio	139,785	153,129	159,444	171,296	175,309
Oklahoma	14,570	8,856	8,478	9,678	14,608
Oregon	41,027	46,040	47,403	49,913	52,417
Pennsylvania	178,774	199,199	203,094	207,399	191,696
S. Dakota	181,318	225,004	249,210	374,850	428,114
Tennessee	23,029	23,892	25,352	28,328	29,356
Texas	54,598	55,805	52,491	72,347	126,823
Utah	288	288	288	292	314
Washington	112,485	112,928	111,188	108,128	166,383
Wisconsin	65,886	66,410	68,527	70,419	70,956
Wyoming	6,458	6,718	6,626	7,004	16,444
Top 30 Total	**3,442,149**	**3,815,717**	**4,046,413**	**4,626,932**	**4,975,034**
U.S. Total	**3,679,667**	**4,070,750**	**4,307,811**	**4,893,732**	**5,238,823**

Average Rental Rates for Continuous CRP in 30 Largest CRP States ($/acre)[42]

	2007	2008	2009	2010	2011
Alabama	50.07	50.35	50.58	50.28	50.29
Arkansas	67.86	68.19	69.11	70.82	72.04
Colorado	86.08	89.90	85.63	72.78	71.37
Georgia	47.40	55.09	55.88	58.06	58.68
Idaho	103.98	106.66	98.49	77.27	67.98
Illinois	139.62	141.13	142.49	147.19	154.48
Indiana	126.23	130.31	134.57	142.15	148.07
Iowa	141.71	146.13	150.04	161.18	166.11
Kansas	58.66	58.91	63.07	61.00	56.50
Kentucky	103.93	144.89	149.67	152.75	154.03
Louisiana	70.51	70.78	71.47	82.59	84.64
Michigan	116.53	117.71	118.60	121.15	121.99
Minnesota	91.42	94.36	96.44	98.99	99.55
Mississippi	61.05	62.10	62.78	65.41	68.16
Missouri	86.28	88.97	92.01	94.85	96.08
Montana	40.92	35.50	35.02	34.11	34.17
Nebraska	93.81	93.53	94.95	95.70	96.24
New Mexico	42.08	42.13	42.32	42.32	42.95
N. Dakota	40.94	43.22	46.13	53.30	56.69
Ohio	147.68	152.65	155.93	159.69	161.65
Oklahoma	43.48	43.81	43.50	43.25	42.07
Oregon	78.32	77.91	77.51	79.14	79.88
Pennsylvania	102.48	104.72	105.67	106.49	108.05
S. Dakota	62.28	68.72	73.67	79.77	83.27
Tennessee	82.11	83.08	85.13	87.47	89.19
Texas	38.08	38.29	38.05	39.79	42.13
Utah	46.54	46.54	46.72	46.65	46.33
Washington	80.31	80.52	80.98	80.92	73.98
Wisconsin	107.25	108.88	110.59	113.05	114.74
Wyoming	44.03	44.87	45.25	45.24	33.33
Top 30 Total	**80.05**	**83.00**	**84.08**	**85.45**	**85.82**
U.S. Average	**97.01**	**100.91**	**102.68**	**103.69**	**103.55**

In addition to the general sign-ups and the ongoing continuous sign-up programs, FSA this year announced two special CRP initiatives. On February 21, 2012, the

[42] United States Department of Agriculture, Farm Service Agency, 2007, 2008 and 2009 come from the annual summaries and 2010 and 2011 come from the December monthly summaries for each year. (*http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=rns-css*)

agency called for protection of up to 750,000 acres of the most highly erodible cropland. This includes land with an erodibility index of 20 or greater, which can be planted to wildlife-friendly, long-term cover. Participants can enroll through a continuous sign-up under this initiative.[43]

On March 2, 2012, FSA announced a second ongoing initiative, an effort to restore grasslands, wetlands and wildlife on up to 1 million acres, also targeting highly erodible cropland. For this initiative, FSA offered Signing Incentive Payments (SIPs) of $150 per acre, an increase of $50 over the usual $100 per acre incentive for the continuous sign-up program. Target practices and acreage goals include the following:[44]

• New continuous pollinator practice:	100,000 additional acres
• Increased acreage for wetland restoration:	200,000 additional acres
• Restoration of critical grassland ecosystems:	
◦ Increased acreage for SAFE (wildlife program):	400,000 additional acres
◦ Increased acreage for duck nesting habitat:	150,000 additional acres
◦ Increased acreage for upland bird habitat buffers:	150,000 additional acres

Targeted, continuous enrollments have become an effective means of combining the erosion-control objectives of land-idling conservation programs with the agricultural production demand needed for a growing population. A mix of land idling and working lands creates a level of biodiversity that benefits both humans and wildlife.

Conservation Reserve Enhancement Program

The Conservation Reserve Enhancement Program (CREP) is a voluntary land retirement program designed to protect environmentally sensitive land administered by FSA in partnership with producers, states, tribes and private organizations.[45] An outgrowth of the CRP, CREP seeks to marshal local and Federal resources to address high-priority conservation concerns, such as "impacts to water supplies, loss of critical habitat for threatened and endangered wildlife species, soil erosion, and reduced habitat for fish populations such as salmon."[46]

CREP projects under the program are community- rather than farm-based (as CRP projects are). States, Indian tribes, local governments or nongovernment organizations identify environmental issues and work with FSA to develop strategies to address them. Like CRP, the goal is to remove agricultural lands from production through 10 to 15 year contracts involving specific practices that focus on the identified environmental concern.

Eligibility requirements for CREP are similar to CRP and enrollment may be continuous, depending upon the project. Farmers who participate in CREP projects receive rental payments, along with a maintenance incentive payment determined by the FSA state committee, and cost-share payments of up to 50 percent of the expense of installing the conservation practice. Often, producers also will receive a sign-up incentive for specific practices. Funding comes from CRP allocations, as well as states; tribes and other partner organizations pay the remainder. States and other organizations also may provide technical support or other in-kind services. Currently there are 46 CREP projects across 33 states.[47] (Additional information on CREP is in *Appendix B.*)

The CREP has become an important means of making CRP more targeted and surgical in its approach, and it has assisted in ensuring that the program aligns with state and local priorities. However, CREP, as with all of the continuous-enroll-

[43] "USDA Announces New Highly Erodible Cropland Initiative for Conservation Reserve Program," Farm Service Agency, February 21, 2012. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/printapp?fileName=nr__20120221__rel__0062.html&newsType=newsrel*)

[44] "Agriculture Secretary Vilsack Announces New Conservation Reserve Program Initiative to Restore Grasslands, Wetlands and Wildlife," Farm Service Agency, March 2, 2012. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/printapp?fileName+nr__20120302__rel0076.html&newsType=newsrel*)

[45] "Conservation Reserve Enhancement Program," Farm Service Agency website. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=cep*)

[46] *Ibid.*

[47] "Conservation Programs, State Updates, CREP State Updates," Farm Service Agency website. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=cep-su*)

ment programs, will need management structures to limit the unnecessary enrollment of high-quality farmland.

State Acres for Wildlife Enhancement (SAFE)

The 2008 Farm Bill added the State Acres for Wildlife Enhancement (SAFE) to CRP in an effort to address state and regional high-priority wildlife objectives through a continuous sign-up. Each SAFE project identifies specific conservation practices and land requirements to benefit target species of concern; hunting and fishing are permitted on acres included in SAFE. SAFE also offers additional incentives to encourage participation, including a Signing Incentive Payment of $100 per acre and a Practice Incentive Payment that equals 40 percent of the cost of installing the conservation practice required under the contract.

Currently there are 89 SAFE projects across 34 states with 732,840 acres allocated. Every major CRP state has at least one SAFE project; among the 30 states, there are 77 SAFE projects potentially covering slightly more than 710,000 acres. (See *Appendix C* for details.) It appears that in some states, SAFE may be being utilized to "bid-up" the rental rates on quality land on whole-field enrollments. Therefore, management scrutiny may be necessary to limit high-quality land enrollments.

Transition Incentives Program

To assist beginning and socially disadvantaged farmers and ranchers, the 2008 Farm Bill provided $25 million for the Transition Incentives Program (TIP). As of January 2012, about $18 million of that funding had been obligated by FSA. Subsequently, USDA ceased taking applications for the remainder of 2012 due to producer interest potentially exceeding the funding limitation.

TIP offers retired or retiring owners or operators up to two additional annual CRP rental payments if they transition land that has been under CRP contract to beginning or socially disadvantaged farmers for sustainable grazing or crop production. The land must be sold or leased long-term (5 years or more). Further, the TIP enrollment must occur during the final year before the scheduled date of CRP contract expiration. (Or it had to occur no later than September 30, 2010 for contracts that expired before that date.)

The goal of TIP is to help beginning and socially disadvantaged farmers and ranchers return land from expiring CRP contracts to productive use through sustainable practices. To participate, CRP contract holders must have land that is in the last year of the contract and agree to allow the producers who are buying or renting the land to make conservation and land improvements. Family members of the retiring or retired farmers and ranchers are not eligible to participate in the program as beginning or socially disadvantaged farmers.

Enrollment in TIP is continuous, but must occur during the final year of the CRP contract. The farmers buying or renting the land may reenroll some or all of the land under CRP's continuous sign-up provisions, including the CREP. In addition, these farmers may be eligible to enroll in the Conservation Stewardship Program (CSP) or the Environmental Quality Incentives Program (EQIP) if they meet the eligibility requirements. Importantly, in any case, purchasing or leasing farmers must develop a conservation plan for land enrolled in TIP.

The following definitions outline qualifications for TIP participants: [48]

- **Retired or retiring owner or operator:** An owner or operator of land enrolled in a CRP contract who has ended active labor in farming operations as a producer of agricultural crops or expects to do so within 5 years of the CRP contract modification.
- **Beginning farmer or rancher:** A person or entity who has not been a farm or ranch operator for more than 10 years; materially and substantially participates in the operation of the farm or ranch involved in CRP contract modification; and, if an entity, is an entity in which 50 percent of the members or stockholders of the entity meet the first two criteria.
- **Socially disadvantaged farmer or rancher:** A farmer or rancher who is a member of a socially disadvantaged group whose members have been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities. Gender is not included. (Examples of disadvantaged groups include American Indians or Alaskan Natives, Asians

[48] "Conservation Reserve Program (CRP)—Transition Incentives Program (TIP)," Farm Service Agency fact sheet, May 2010. Accessed 10 April 2012.

or Asian-Americans, Blacks or African Americans, Hispanics and Native Hawaiians or other Pacific Islanders.)[49]

TIP can be a smart, valuable means of transitioning quality land from CRP while assisting beginning farmers and ranchers. The Senate version of the 2012 farm bill reauthorizes TIP and doubles funding to $50 million.

Recommendations for Changes to CRP

The goals of protecting environmentally sensitive land and enhancing the ability of U.S. farmers and ranchers to produce to meet the world's growing demand for food, feed, biofuels and exports are mutually compatible. But to accomplish those twin goals, SCS believes it is necessary for Congress to reboot the CRP to make it more responsive and consistent with emerging public and private needs for both food production and conservation. The program needs to be administered in a manner that targets sensitive lands and discourages enrollment of high-quality, fertile soils that are suited for producing food.

Legislative Recommendations

Based upon the analysis presented in this study, the following legislative changes in the 2012 Farm Bill should be considered to reform the CRP and encourage the return of productive idled land to farming in an environmentally sustainable way:

1. First and foremost, SCS recommends that the current 32 million acre CRP cap be reduced significantly. At a minimum, Congress should mandate acres designated as "prime farmland" (which amounted to approximately 8.7 million acres in 2007, the most recent data publicly available) not be eligible for future enrollment or reenrollment. This would include approximately 7.1 million acres considered to be Land Capability Classes I and II. This land can be farmed in an environmentally sustainable way to meet growing food demand. In the 30 states with the greatest CRP enrollments, approximately 8.5 million acres were considered prime farmland, much of it highly concentrated in several major grain-production states.

2. Second, USDA should be directed to conduct a comprehensive analysis of how best to manage the transition to crop production or grazing land of Class III land from the reserve that is not considered prime farmland. This portion of the reserve likely will need to be tapped over the next 10 to 15 years to address the demands caused by world population growth and farmland lost to urban development. Restricting enrollments of prime farmland and Class III lands, combined with the immediately preceding recommendation, would equate to a CRP of approximately 21 million acres.

3. Third, Congress should frontload the acreage reductions to best match the acreage with CRP contract expirations. Current production needs are causing the conversion of fragile native grasslands to crop production, in part because higher-quality land in those same communities is tied up in the CRP. The transition to a smaller CRP mandated by Congress will be easier in the early years of the next farm bill due to contract expirations than it will be in later years.

4. Fourth, Congress should include legislative language that would limit whole-field and whole-farm enrollments in the CRP by requiring such land to meet a more stringent Environmental Benefits Index (EBI) scoring threshold than partial-field enrollments. During the early years of CRP, whole farms and whole fields were enrolled, which resulted in enrolling high-quality land suited to agricultural production.

5. Fifth, Congress should direct that USDA offer CRP contract holders an early-out (without penalty) as a means of reducing acreage within the CRP that is "prime farmland," most of which should not have been enrolled in the reserve. In addition, penalty-free early outs should be offered in counties that meet or exceed the 25 percent county acreage cap, as well as anytime national enrollment levels preclude a general sign-up. In managing this transition, it is suggested that USDA be required to offer penalty-free early outs for Land Capability Classes I, II and III enrolled in CRP, and require producers who accept early-outs to implement prudent conservation practices on such lands.

6. Sixth, Congress should allocate sufficient monies to at least triple—to $75 million—the size of the Transition Incentives Program, currently authorized at $25 million, for transitioning expired CRP acreage from a retired or retiring landowner to beginning or socially disadvantaged farmers. This program quickly

[49] "Conservation Reserve Program (CRP) Transition Incentives Program," Farm Service Agency slide presentation, undated. Accessed 10 April 2012.

reached its capacity after being authorized as part of the 2008 Farm Bill and needs additional resources, which could be financed through savings garnered from a right-sized CRP. TIP is an important step toward addressing land access for beginning farmers and ranchers. In addition, it is recommended that retired or retiring landowners be allowed to transition such CRP acreage within three years of contract expiration (rather than the current one year), with no change in the current incentive payment (two years of annual CRP rental payments).

7. Seventh, Congress should consider whether to provide a specific percentage- or acreage-based figure within the CRP for future enrollment of the most environmentally sensitive lands. As of April 2011, the CRP included 5 million acres enrolled under continuous sign-up procedures. Some conservation leaders have expressed concern that adequate CRP acreage should be reserved each year to ensure that such environmentally sensitive lands can be enrolled, with some suggesting that as many as 8 million acres of the CRP should be reserved for such high-priority enrollments. Recent USDA press releases imply that the Agency is reserving 1.75 million acres for future continuous enrollments. This is an issue that warrants Congress's attention as it considers the future of the CRP. With a right-sized CRP, it will be crucial that sufficient acreage be reserved for future enrollment of the most important and environmentally fragile lands.

8. Eighth, restrict the discretion for USDA to exceed the 25 percent acreage limit on CRP enrollments in individual counties because of the adverse economic impacts such enrollments have had on rural communities. Further, it is recommended that USDA be required to reserve within the 25 percent county limit at least a 5 percent allowance for acres enrolled in the wetlands reserve and continuous sign-up process.

9. Ninth, USDA should provide the appropriate Congressional committees of jurisdiction with a written explanation of the rationale used to determine the Environmental Benefits Index (EBI) that applies for general CRP sign-ups. Added justification should be provided in years when the EBI changes from one sign-up to the next.

10. Tenth, Congress should direct that USDA conduct and complete within two years of enactment a comprehensive economic impact study that evaluates the impact of the CRP on rural communities.

Administrative Recommendations

USDA should modify several policies in implementing and administering the CRP in the future.

- First, USDA's Farm Service Agency and Natural Resources Conservation Service should compile a report of acreage enrolled in CRP by Land Capability Class and Erodibility Index, and submit it to Congress within one year after the new farm bill is enacted and every three years thereafter. As part of such a report, USDA should be required to compile Land Capability Class and Erodibility Index acreage by county.
- Second, identify, and make public on the FSA website, counties that are at or near the 25 percent enrollment cap. These data will increase transparency and enable USDA and stakeholders to better analyze the prudent management of CRP.
- Third, implement a percentage-based limit on rental rates paid for CRP land compared to average county rental rates so as not to outbid the market for productive acres.
- Fourth, review the EBI to discourage enrollment of high-quality land in the CRP. For example, negative or no points should be awarded for Non-Highly Erodible Land as part of the EBI scoring mechanism.
- Fifth, place sideboards [parameters] on program provisions, rental rates and incentive payments to ensure that neither rates nor program administration work to bring non-environmentally sensitive, highly productive land into the various continuous and special sign-up programs. Examples are outlined below:
  - Consider restricting buffer, filter and riparian strips to no more than 30 to 50 feet in width, as at least one state has used this provision to enroll small, full fields in the higher-cost continuous program rather than the lower-cost general program.
  - Consider restricting SAFE acres to endangered, or candidate, wildlife species—prohibiting these acres from being targeted to game species. It appears that a few states may be using SAFE to increase rental payments on high-

quality land to support commercial hunting enterprises. Under no conditions should SAFE acres be allowed to be used for fee-based or commercial hunting enterprises.

- ○ Consider placing greater emphasis on wetlands protection in the CRP continuous sign-up programs and encourage the transition of wetlands enrolled in the CRP to the appropriate easement program for permanent wetlands protections.
- ○ Limit uplands enrolled under CRP and easement wetlands to 10 percent of the surrounding area rather than 25 percent, if located on prime farmland.

Conclusion

It is highly likely that the U.S. Congress will reduce the CRP acreage cap in the 2012 Farm Bill for primarily budget reasons. However, the degree to which this will increase potential cropping acreage largely will be determined by USDA operational decisions at the national and state level. It is reasonable to assume that some decision-makers within USDA, plus certain partners in the wildlife and conservation community, will support implementing CRP so as to maximize new enrollments as well as reenrollments of existing CRP acreage. Feed, forage, biomass and livestock interests will need to build the case for access to those acres. Building that case will be somewhat controversial in some agriculture arenas, as existing CRP contract holders likely will advocate increases in CRP rental rates, which would reduce the likelihood that those acres would return to cropping.

An important consideration, as mentioned earlier in this study, is that significant acreage of "prime farmland" is currently in pasture and rangeland. This may provide some small, localized opportunities to increase grain and oilseed acreage because of escalating returns to farmland and decreased numbers of beef cattle. In many areas of the country, CRP enrollments may have accelerated the conversion of previously uncropped grassland to cropland. At present returns on investment, this trend is likely to continue, with additional range and pastureland being broken out and converted to crop production due to spot shortages of available farmland as a result of CRP enrollments. Some contend that relaxing the haying and grazing provisions in CRP to allow annual use of less-productive CRP land for these purposes at a reduced payment rate may serve to slow the conversion of non-CRP land to farm ground.

To fully evaluate the market opportunities and options for NGFF, it is important to look at the policy implications that may result from the 2012 Farm Bill debate regarding the future of CRP. CRP has a long and successful history in decreasing soil erosion and increasing wildlife benefits. As such, it has been popular with participating landowners and with society in general that has benefitted from cleaner air and water, and an abundance of wildlife. However, current commodity prices, advances in conservation technology, concerns about the national budget deficit, and burgeoning demand for food, feed and biofuels are causing policymakers to reconsider the size and scope of the program and have eliminated its original market-stabilization role.

The program currently is authorized at 32 million acres, but in reality is operating below that cap at approximately 30 million acres. Further, based upon 2007 NASS data—the most recent available—the CRP at that time contained up to nearly 8 million acres of prime farmland and even more high-quality acreage. Contracts with over 25 million acres enrolled in CRP will expire in the next 10 years, providing an opportunity to continue to enroll highly environmentally sensitive acres in the program while releasing prime farmland for productive use. The 2008 farm bill reduced the CRP acreage cap, and further modifications to the cap are being considered for budget and market reasons for the 2012 Farm Bill. Existing enrollments in the CRP are highly concentrated in the Midwest, Great Plains and the Pacific Northwest, providing opportunities for future expansion of grains and oilseeds acreage.

While the budget deficit debate will cause Congress to consider lowering the CRP acreage cap for 2013, other programmatic decisions may be considered in 2012. Concerns about adequacy of feed and forage supplies, as well as budget concerns for the Grassland Reserve Program (GRP), may lead some to consider allowing annual haying and grazing of less-productive CRP acres at a reduced payment level. Further, the Senate Agriculture Committee-passed farm bill contains provisions to allow GRP-style activities oriented toward grassland preservation to become part of the CRP program.

Beyond the farm bill, USDA will have annual decisions to make on how aggressively to pursue new CRP sign-ups and re-enrollments of existing acres. Key factors will be rental rates, permitted uses of the land, public access programs, whole-farm and whole-field enrollments, rankings under the Environmental Benefits Index, as well as partnerships with states through the Conservation Reserve Enhancement Program. As evidenced by the variability in rental rates in the major CRP states, these decisions will be heavily influenced by state-level policy in USDA's Farm Service Agency and the adequacy of state budgets to partner in CREP offerings.

Congressional and USDA decisions on CRP enrollments and reenrollments significantly will affect the opportunity to increase planted acreage for grains, forage, oilseeds and fiber. The market currently is causing many landowners to consider options other than their current CRP contracts; this may present a unique time to look at future CRP policy.

In short, the confluence of many factors makes this an ideal time to regain ground by right-sizing the CRP and refocusing it on truly environmentally sensitive acres.

Appendix A: Environmental Benefits Index and Soil Classification System

1. *Environmental Benefits Index:* FSA ranks enrollment offers through the Environmental Benefits Index (EBI). Highest-ranked offers receive contracts. EBI factors [50] include:

- Wildlife habitat benefits—from vegetative covers on contract acreage
- Water quality benefits—from reduced erosion, runoff and leaching
- On-farm benefits—from reduced erosion
- Benefits likely to last beyond the contract period
- Air quality benefits—from reduced wind erosion
- Cost

For Sign-up 42, FSA provided the following specific considerations and potential points under the EBI: [51]

- N1 Wildlife (0–100 points)
  - N1a Wildlife habitat cover benefits (0–50 points)
    - Permanent introduced grasses and legumes (10 or 40 points)
    - Establishment of new permanent native grasses and legumes (20 or 50 points)
    - Tree planting (10 or 50 points)
      - Hardwood tree planting (10, 20, 30 or 50 points)
      - Permanent wildlife habitat (corridors), noneasement (40 or 50 points)
      - Permanent wildlife habitat, noneasement (40 or 50 points)
    - Wildlife food plots (no separate points)
    - Rare and declining habitat restoration (50 points)
    - Pollinator habitat (50 points)
  - N1b Wildlife enhancement (0, 5 or 20 points)
    - Converting at least 51 percent of a monoculture stand to a mix of native species that provides wildlife benefits (20 points)
    - Establishment of pollinator habitat (if the CRP parcel is less than 10 acres, at least one acre of pollinator habitat with each area at least 0.5 acre; if the CRP parcel is more than 10 acres, at least 10 percent of the parcel in pollinator habitat, with each habitat area at least 0.5 acre) (20 points
    - Annual or permanent food plot (5)
  - N1c Wildlife priority zones (0 or 30 points)
- N2 Water quality benefits from reduced erosion, runoff and leaching (0–100 points)
  - N2a Location (0 or 30 points)
  - N2b Groundwater quality (0 to 25 points)
  - N2c Surface water quality (0 to 45 points)
- N3 Erosion factor point score, based on Erodibility Index (EI) (0 to 100 points)

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[50] *Ibid.*

[51] "Conservation Reserve Program Sign-Up 42 Environmental Benefits Index (EBI)," February 2012, Farm Service Agency. Accessed 21 February 2012. (*www.fsa.usda.gov/Internet/FSA_File/crp_441_ebi.pdf*)

- EI 4 1 point
- EI 5 2 points
- EI 6 4 points
- EI 7 7 points
- EI 8 11 points
- EI 9 16 points
- EI 10 22 points
- EI 11 29 points
- EI 12 37 points
- EI 13 46 points
- EI 14 56 points
- EI 15 67 points
- EI 16 79 points
- EI 17 92 points
- EI 18 97 points
- EI 19 98 points
- EI 20 99 points
- EI 21+ 100 points

- N4 Enduring benefits factor (0 to 50 points)
- N5 Air quality benefits from reduced wind erosion (0 to 45 points)
  - N5a Wind erosion impacts (0–25 points)
  - N5b Wind erosion soils list (0 or 5 points)
  - N5c Air quality zones (0 or 5 points)
  - N5d Carbon sequestration (3 to 10 points)
    - Tree planting (10 points)
    - Rare and declining habitat restoration (5 points)
    - Permanent wildlife habitat (4 points)
    - Permanent introduced grasses and legumes or native grasses (3 points)
- N6 Cost
  - N6a Cost (point value determined after end of sign-up based on actual offer data)
  - N6b Offer less than maximum payment rate (0 to 25 points)

FSA has advised producers that the following strategies represent the best approach for making their CRP offers competitive: [52]

- Plant or establish the highest scoring cover mixture on the acreage offered.
- Offer only the most environmentally sensitive land.
- Consider accepting a lower payment rate that the FSA maximum.

2. *Erodibility Index:* To evaluate the on-farm benefits from reduced erosion, FSA uses an erodibility index. Points range from 1 for land classified as EI 4 on the index up to 100 points for land classified as EI 21 or higher.[53] In determining potential for wind or water erosion, FSA considers the land capability classification of the acreage.

3. *Land Capability Classification:* The NRCS's Land Capability Classification (LCC) system sets out eight land classes, which indicate how suitable land is for growing crops. Classes I–IV are for arable land, while V–VIII are suitable

[52] *Ibid.*
[53] "The Conservation Reserve Program: 41st Signup Results," Farm Service Agency, June 2011. Accessed 7 September 2011. (*www.fsa.usda.gov/Internet/FSA_File/crpsignupresults.pdf*)

for pasture, range, woodland, grazing, wildlife, recreation and esthetic purposes.[54] Specifically, as defined by NRCS, the eight classes include:[55]

Class I:	Soils have slight limitations that restrict their use.
Class II:	Soils have moderate limitations that reduce the choice of plants or require moderate conservation practices.
Class III:	Soils have severe limitations that reduce the choice of plants or require special conservation practices, or both.
Class IV:	Soils have very severe limitations that restrict the choice of plants or require very careful management, or both.
Class V:	Soils have little or no hazard of erosion but have other limitations, impractical to remove, that limit their use mainly to pasture, range, forestland or wildlife food and cover.
Class VI:	Soils have severe limitations that make them generally unsuited to cultivation and that limit their use mainly to pasture, range, forestland or wildlife food and cover.
Class VII:	Soils have very severe limitations that make them unsuited to cultivation and that restrict their use mainly to grazing, forestland or wildlife.
Class VIII:	Soils and miscellaneous areas have limitations that preclude their use for commercial plant production and limit their use to recreation, wildlife or water supply or for esthetic purposes.

Within the broad classes, there are four subclasses, defined by NRCS as follows:[56]

Subclass e:	Made up of soils for which the susceptibility to erosion is the dominant problem or hazard affecting their use. Erosion susceptibility and past erosion damage are the major soil factors that affect soils in this subclass.
Subclass w:	Comprised of soils for which excess water is the dominant hazard or limitation affecting their use. Poor soil drainage, wetness, a high water table and overflow are the factors that affect soils in this subclass.
Subclass s:	Made up of soils that have soil limitations within the rooting zone, such as shallowness of the rooting zone, stones, low moisture-holding capacity, low fertility that is difficult to correct, and salinity or sodium content.
Subclass c:	Comprised of soils for which the climate (the temperature or lack of moisture) is the major hazard or limitation affecting their use.

FSA specifically considers whether or not land is classified in subclasses *e* or *w* in determining the erodibility of the soil.

Appendix B: Conservation Reserve Enhancement Program (CREP)

The Conservation Reserve Enhancement Program (CREP) is a voluntary land retirement program of the Farm Service Agency—in partnership with producers, states, tribes and private organizations—designed to protect environmentally sensitive land.[57] An outgrowth of the CRP, CREP seeks to marshal local and Federal

[54] Helms, Douglas. "The Development of the Land Capability Classification," NRCS History Articles, Natural Resources Conservation Service website. Accessed 8 September 2011. (*www.nrcs.usda.gov/wps/portal/nrcs/detail?ss=16&navtype=SUBNAVIGATION&cid=nrcs143_021436&navid=210160000000000&pnavid=210000000000000&position=Not%20Yet%20Determined.Html&Hype=detail&pname=Land%20Capability%20Classification%20| %20NRCS*)

[55] National Soil Survey Handbook Part 622, Natural Resources Conservation Service website. Accessed 17 September 2011. (*http://soils.usda.gov/technicalhandbook/contents/part622.html*)

[56] *Ibid.*

[57] "Conservation Reserve Enhancement Program," Farm Service Agency website. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=cep*)

resources to address high priority conservation concerns such as "impacts to water supplies, loss of critical habitat for threatened and endangered wildlife species, soil erosion, and reduced habitat for fish populations such as salmon." [58]

CREP projects under the program are community- rather than farm-based as CRP projects are. States, Indian tribes, local governments or nongovernment organizations identify environmental issues, and work with FSA to develop strategies to address them. Like CRP, the goal is to remove agricultural lands from production through 10 to 15 year contracts involving specific practices that focus on the identified environmental concern.

Eligibility requirements for CREP are similar to CRP, and enrollment may be continuous, depending upon the project. Farmers who participate in CREP projects receive rental payments, as well as a maintenance incentive payment determined by the FSA state committee, and cost-share payments of up to 50 percent of the expense of installing the conservation practice. Frequently, producers also will receive a sign-up incentive for specific practices. Funding is derived from CRP allocations, as well as states; tribes and other partner organizations pay the remainder. States and other organizations also may provide technical support or other in-kind services.

Currently there are 46 CREP projects across 33 states.[59] CREP projects in the 30 major CRP states include the following:

Alabama:	None	
Arkansas:	3 projects	$9.4 million to restore 6,000 acres of hardwood forests and wetlands in the Cache River/Bayou Deview watersheds (2007) $10 million to improve drinking water by planting trees on up to 4,700 acres to reduce sediment in the Bayou Meto watershed in five central Arkansas counties (2001) $25 million to enhance wildlife habitat and improve water quality by filtering agricultural runoff on up to 15,000 acres in the Illinois River watershed (2009)
Colorado:	2 projects	$66.3 million to conserve water and reduce agricultural chemicals and sediments entering the Republican River Basin and Ogallala Aquifer from up to 35,000 acres (2006) $25.3 million to reduce soil erosion and agricultural chemicals, improving water quality, and also to increase habitat for ring-necked pheasant and other ground-nesting birds by planting vegetative cover and food plots on up to 30,000 acres in the High Plains area in Colorado (2006)
Georgia:	None	
Idaho:	2 projects	$258 million to reduce irrigation water use, increase water quality, reduce soil erosion and sedimentation and increase wildlife populations on up to 100,000 acres in 22 counties (2006)

[58] *Ibid.*

[59] "Conservation Programs, State Updates, CREP State Updates," Farm Service Agency website. Accessed 9 April 2012. (*www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=cep-su*)

Illinois:	1 project	$700 million to reduce soil erosion and enhance wildlife habitat on up to 232,000 acres in the Illinois and Kaskaskia River basins (2010 expanded to Kaskaskia River basin)
Indiana:	2 projects	$84.8 million to reduce sediment, nutrients, pesticides and herbicides in 11 watersheds spanning 65 counties involving up to 26,250 acres (2010 expanded from three watersheds to 11)
Iowa:	2 projects	$38 million to address water quality issues related to excess nitrogen impacting water quality on up to 9,000 acres in 37 counties in north central Iowa (2007)
Kansas:	2 projects	$22.7 million to improve water quality and supplies in the Upper Arkansas River by enrolling up to 28,950 acres in CREP (2011 expanded)
Kentucky:	1 project	$105 million to improve water quality, enhance wildlife habitat, restore riparian habitat and address 1,000 sinkholes on up to 99,500 acres in the Green River watershed in south central Kentucky
Louisiana:	2 projects	$121 million to improve water quality in the Lower Ouachita River Basin by enrolling up to 50,000 acres in the Bayou Macon and Boeuf River watersheds in CREP (2005) To improve water quality and restore or enhance wildlife habitat in the Louisiana Coastal Prairie Region through conservation practices on up to 15,050 acres in the Mermentau River Basin (2011—no dollar value specified)
Michigan:	1 project	$177 million to improve water quality of Macatawa, River Raisin and Saginaw Bay watershed (2000)
Minnesota:	1 project	$250 million to convert environmentally sensitive cropland to native vegetation to improve water quality, reduce soil erosion, increase flood water storage and provide for fish and wildlife habitat in the Lower Mississippi Watershed in southeastern Minnesota, the Red River Watershed in northwestern Minnesota and the Missouri and Des Moines Watersheds in southwestern Minnesota (1998, renewed in 2005)
Mississippi:	None	

Missouri:	1 project	$85 million to improve drinking water in Missouri by removing from agricultural production up to 50,000 acres, thus reducing pollution of streams and reservoirs that supply water to more than 375,000 Missouri residents (2000)
Montana:	1 project	$57 million to enroll up to 26,000 acres to improve water quality and enhance wildlife in nine counties along the Missouri and Madison Rivers (2003, updated 2012)
Nebraska:	2 projects	$158 million to reduce ground and surface water used for irrigation, conserving water from the Republican and Platte Rivers and their tributaries through enrolling up to 100,000 acres in CREP (2011 expanded)
New Mexico:	None	
North Dakota:	1 project	$43 million to protect 160,000 acres of fragile farm land by maintaining grass cover and improve water quality in six watersheds
Ohio:	3 projects	$201 million to improve water quality of Lake Erie and 5,000 miles of Ohio streams (2000) $13.2 million to safeguard the Hoover Reservoir, primary drinking water source for Columbus, Ohio, through buffers installed on up to 3,500 acres and 450 miles of watercourses; additional incentive payments available from local Soil and Water Conservation Districts, city of Columbus and Ducks Unlimited $207 million to protect drinking water in Columbus by reducing agricultural pollution, soil erosion and downstream flooding from 70,000 acres in 31 counties in the Scioto River Watershed (2004)
Oklahoma:	1 project	$20.6 million to create up to 9,000 acres of riparian buffers and filter strips to reduce pollution in the Spavinaw Lake and the Illinois River/Lake Tenkiller watersheds (2007)
Oregon:	1 project	$250 million to restore streams and save endangered salmon and trout by enrolling up to 100,000 acres in CRP (1998)
Pennsylvania:	1 project	$410 million to protect the Chesapeake Bay by reducing erosion and sedimentation on up to 200,000 acres in 43 counties; expanded to cover up to 65,000 acres in 16 counties in the Ohio River Basin (2000, expanded in 2003, expanded to Ohio River in 2004)
South Dakota:	1 project	$161.4 million to improve James River water quality and enhance wildlife habitat by enrolling up to 100,000 acres in CREP (2009)

Tennessee:	None	
Texas:	None	
Utah:	None	
Washington:	1 project	$250 million to restore streams and save endangered salmon species by enrolling in CRP up to 100,000 acres of riparian buffers planted to trees (1998)
Wisconsin:	1 project	$243 million to protect water quality and wildlife habitat by enrolling 100,000 acres in CRP and installing 3,700 miles of riparian buffers
Wyoming:	None	

Appendix B (part II): CREP/CRP Acreage and Rental Rates

CREP Acres for 30 Largest CRP States

	2007	2008	2009	2010	2011
Alabama	0	0	0	0	0
Arkansas	6,441	6,525	6,614	6,923	0
Colorado	16,801	20,682	21,355	22,039	6,964
Georgia	0	0	0	0	22,265
Idaho	16,885	19,442	17,036	17,446	0
Illinois	124,947	126,929	126,601	126,552	17,403
Indiana	1,929	3,434	4,482	6,260	138,506
Iowa	1,038	1,186	1,394	1,975	7,196
Kansas	0	739	8,164	10,768	2,128
Kentucky	13,993	81,663	98,505	100,862	11,514
Louisiana	48,358	49,875	49,792	49,721	100,652
Michigan	60,946	63,954	66,494	71,460	49,559
Minnesota	86,006	90,135	90,337	90,305	72,802
Mississippi	0	0	0	0	90,194
Missouri	20,984	36,584	39,581	39,377	38,281
Montana	10,350	10,653	10,663	10,638	11,449
Nebraska	68,465	68,378	70,655	72,511	72,553
New Mexico	0	0	0	0	0
N. Dakota	1,532	1,670	1,672	1,708	1,616
Ohio	79,825	92,686	99,644	108,099	112,200
Oklahoma	0	62	133	412	555
Oregon	28,243	33,443	35,354	38,090	40,167
Pennsylvania	177,627	197,977	202,006	206,449	190,859
S. Dakota	0	0	0	36,540	59,741
Tennessee	0	0	0	0	0
Texas	0	0	0	0	0
Utah	0	0	0	0	0
Washington	11,193	11,532	11,802	12,472	12,914
Wisconsin	37,336	38,999	39804	40,895	41,287
Wyoming	0	0	0	0	0
Top 30 Total	**812,899**	**956,548**	**1,002,088**	**1,071,502**	**1,100,805**
U.S. Total	**962,857**	**1,113,934**	**1,160,765**	**1,233,669**	**1,265,103**

Average CREP Rental Rates for 30 Largest CRP States ($/acre)

	2007	2008	2009	2010	2011
Alabama	—	—	—	—	—
Arkansas	100.38	100.53	101.39	101.62	101.49
Colorado	110.59	110.71	110.52	109.87	109.41
Georgia	—	—	—	—	—
Idaho	133.11	132.98	132.85	132.85	132.81
Illinois	159.62	161.36	161.38	161.58	170.46
Indiana	174.20	186.64	197.36	206.96	208.68
Iowa	210.97	212.45	215.50	228.96	232.13
Kansas	—	118.83	115.73	115.05	115.69
Kentucky	129.35	178.81	181.61	182.54	182.58

Average CREP Rental Rates for 30 Largest CRP States ($/acre)—Continued

	2007	2008	2009	2010	2011
Louisiana	79.17	79.16	79.17	79.17	79.18
Michigan	123.94	124.75	125.47	127.96	128.88
Minnesota	112.37	114.61	114.70	114.71	114.70
Mississippi	—	—	—	—	—
Missouri	86.86	94.85	96.34	96.35	96.51
Montana	91.73	91.12	91.16	89.86	86.63
Nebraska	110.58	110.57	111.35	112.16	112.41
New Mexico	—	—	—	—	—
N. Dakota	35.62	35.57	35.59	36.45	35.54
Ohio	178.03	181.66	183.94	187.78	189.05
Oklahoma	—	63.43	63.96	62.99	62.37
Oregon	86.48	84.64	83.57	84.94	85.74
Pennsylvania	102.81	105.02	105.94	106.73	108.29
S. Dakota	—	—	—	105.17	105.51
Tennessee	—	—	—	—	—
Texas	—	—	—	—	—
Utah	—	—	—	—	—
Washington	166.26	168.25	169.22	174.62	179.76
Wisconsin	115.67	116.99	119.25	121.70	123.57
Wyoming	—	—	—	—	—
Top 30 Total	**121.46**	**122.52**	**123.52**	**124.55**	**125.52**
U.S. Average	**121.72**	**127.10**	**128.78**	**129.72**	**131.72**

Non-CREP Acres for 30 Largest CRP States

	2007	2008	2009	2010	2011
Alabama	36,333	42,235	43,606	48,962	49,988
Arkansas	75,168	82,353	79,743	118,741	125,303
Colorado	9,036	8,774	12,086	25,267	27,212
Georgia	12,295	53,144	64,030	87,511	96,726
Idaho	9,996	9,835	12,952	31,840	58,421
Illinois	296,605	308,278	314,262	328,424	331,846
Indiana	100,974	101,887	111,873	114,983	116,323
Iowa	470,084	472,467	495,788	534,414	533,749
Kansas	91,456	95,768	98,917	117,286	151,457
Kentucky	59,423	60,572	64,688	64,900	62,240
Louisiana	34,839	36,060	40,174	75,155	80,585
Michigan	23,507	22,944	23,333	22,459	23,003
Minnesota	253,110	261,097	282,196	321,879	340,927
Mississippi	174,682	182,550	187,317	201,729	211,879
Missouri	108,035	112,556	124,221	133,929	137,515
Montana	154,338	107,067	107,860	120,448	120,006
Nebraska	70,984	71,437	87,341	97,975	100,594
New Mexico	5,079	5,375	5,280	5,280	6,104
N. Dakota	159,260	164,025	185,121	257,878	260,961
Ohio	59,960	60,246	59,581	62,940	62,844
Oklahoma	14,570	8,794	8,344	9,236	14,023
Oregon	12,785	12,596	12,048	11,823	12,250
Pennsylvania	1,147	1,142	1,087	950	837
S. Dakota	181,318	181,220	202,586	268,068	288,186
Tennessee	23,029	23,892	25,352	28,328	29,356
Texas	54,598	55,805	52,491	72,347	126,823
Utah	288	288	288	292	314
Washington	101,292	101,395	99,387	95,656	153,469
Wisconsin	28,550	27,368	28,666	29,450	29,619
Wyoming	6,458	6,718	6,626	7,004	16,444
Top 30 Total	**2,629,199**	**2,677,888**	**2,837,244**	**3,295,154**	**3,569,004**
U.S. Total	**2,716,810**	**2,775,634**	**2,957,965**	**3,399,785**	**3,668,427**

Farmable Wetland Program Acres for 30 Largest CRP States

	2007	2008	2009	2010	2011
Alabama	0	0	0	18	18
Arkansas	0	0	0	0	1,808
Colorado	0	0	0	157	157

Farmable Wetland Program Acres for 30 Largest CRP States—Continued

	2007	2008	2009	2010	2011
Georgia	0	0	0	0	0
Idaho	0	0	0	6	6
Illinois	322	320	350	543	605
Indiana	887	930	943	999	1,015
Iowa	72,241	73,097	74,373	78,544	80,060
Kansas	784	995	1,149	1,723	1,939
Kentucky	0	0	0	0	0
Louisiana	0	0	0	2,648	3,339
Michigan	38	51	51	71	74
Minnesota	36,688	39,467	41,237	43,921	44,527
Mississippi	0	0	597	6,297	9,911
Missouri	9	9	9	215	215
Montana	145	140	140	140	140
Nebraska	3,769	3,862	4,041	4,127	4,195
New Mexico	0	0	0	0	0
N. Dakota	16,234	18,282	19,286	50,263	76,683
Ohio	134	196	219	257	265
Oklahoma	0	0	0	30	30
Oregon	0	0	0	0	0
Pennsylvania	0	0	0	0	0
S. Dakota	35,493	43,784	46,624	70,241	80,187
Tennessee	0	0	0	0	0
Texas	0	0	0	0	0
Utah	0	0	0	0	0
Washington	0	0	0	0	0
Wisconsin	43	43	57	73	59
Wyoming	0	0	0	0	0
Top 30 Total	**166,787**	**181,176**	**189,076**	**260,273**	**305,233**
U.S. Total	**166,793**	**181,182**	**189,081**	**260,278**	**305,293**

Farmable Wetland Program Average Rental Rates for 30 Largest CRP States ($/acre)

	2007	2008	2009	2010	2011
Alabama	—	—	—	33.47	33.47
Arkansas	—	—	—	83.72	
Colorado	—	—	—	52.45	52.45
Georgia	—	—	—	—	—
Idaho	—	—	—	78.55	78.55
Illinois	154.46	154.45	157.27	181.79	187.82
Indiana	130.22	132.65	133.50	138.82	139.45
Iowa	164.11	164.22	165.19	168.16	170.19
Kansas	51.36	49.85	50.20	51.11	53.37
Kentucky	—	—	—	—	—
Louisiana	—	—	—	93.00	95.81
Michigan	94.73	99.71	99.76	107.57	107.96
Minnesota	101.25	102.33	104.49	107.56	109.15
Mississippi	—	—	102.01	92.22	95.94
Missouri	76.04	76.04	76.04	108.73	108.73
Montana	34.63	33.80	33.80	33.80	34.82
Nebraska	82.71	82.67	82.72	83.42	84.96
New Mexico	—	—	—	—	—
N. Dakota	47.28	51.19	53.17	73.03	76.80
Ohio	117.33	122.22	124.98	134.32	138.56
Oklahoma	—	—	—	44.68	44.68
Oregon	—	—	—	—	—
Pennsylvania	—	—	—	—	—
S. Dakota	81.18	83.23	84.46	90.89	93.22
Tennessee	—	—	—	—	—
Texas	—	—	—	—	—
Utah	—	—	—	—	—
Washington	—	—	—	—	—
Wisconsin	122.16	121.84	141.61	153.43	159.77
Wyoming	—	—	—	—	—
Top 30 Total	**96.73**	**98.02**	**100.66**	**98.53**	**98.37**
U.S. Average	**118.71**	**117.04**	**117.61**	**113.63**	**111.65**

Appendix C: CRP State Acres for Wildlife Enhancement (SAFE)

State Acres for Wildlife Enhancement (SAFE) is part of the CRP's continuous sign-up program, designed to address state and regional high-priority wildlife objectives.

Contracts under SAFE run 10 to 15 years. They are administered by USDA's Farm Service Agency (FSA) on behalf of the Commodity Credit Corporation (CCC). Through SAFE, landowners receive annual rental payments, incentives and cost-share assistance to establish, improve, connect or create higher quality wildlife habitat.[60]

Currently there are 89 SAFE projects across 34 states with 732,840 acres allocated.[61]

Eligibility

- Land planted to crops, or considered planted to an agricultural commodity, during four of the six years from 1996 to 2001.
- Site located within a SAFE project area, appropriate for the practices identified by that project.

Management Practices

- Specific practices are established by each SAFE project to benefit the target high-priority wildlife.
- Practices must be managed during the life of the contract.
- Fishing and hunting are permitted on CRP-enrolled land.

Payments

- Annual rental payments are based on the average value of dryland cash rent or cash rent equivalent for the past three years.
- FSA service centers can provide rental rates.
- CCC will pay up to 50 percent of the cost of establishing a permanent cover on the land.
- Other benefits may include:
  - Upfront, one-time CRP Signing Incentive Payment of $100 per acre, made after the contract is approved.
  - Practice Incentive Payment—one-time payment equal to 40 percent of eligible installation costs, paid after the practice is installed, eligible costs verified and other payment eligible criteria are met.

High-Priority Species for SAFE

- Species listed as threatened, endangered or candidates for designation by the U.S. Fish and Wildlife Service.
- Species that have suffered significant population declines, such as the lesser prairie chicken, sharp-tailed grouse or northern bobwhite quail.
- Socially or economically valuable species or those that provide significant social or economic value to the community, such as salmon, steelhead, pollinators or game birds.

SAFE projects in the 30 largest CRP states include the following: [62]

Alabama

Alabama Black Belt Prairie Restoration SAFE—Goal to enroll 3,800 acres in CRP to improve native grassland habitats for rare, threatened, endangered and declining species dependent on native prairie communities found within Black Belt Prairie region of Alabama.

Arkansas

Arkansas Wetlands SAFE—Goal to enroll 3,500 acres in CRP to benefited targeted species, including bald eagle, American black bear, American black duck and Mississippi kite; other species, including ivory-billed woodpecker, will also benefit.

Arkansas Grass SAFE—Goal to enroll 5,700 acres in CRP to restore early successional habitat to benefit bobwhite quail; 53 other species of concern will also benefit.

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[60] "Conservation Reserve Program—State Acres for Wildlife Enhancement (SAFE)," Farm Service Agency fact sheet, February 2010. Accessed 11 April 2012.

[61] "Conservation Reserve Program—State Acres for Wildlife Enhancement (SAFE)," Farm Service Agency fact sheet, March 2011. Accessed 11 April 2012.

[62] *Ibid.*

Arkansas Trees SAFE—Goal to enroll 5,000 acres in CRP to restore trees, primarily hardwoods, to create habitat to benefit American woodcock, swallow-tailed kite, bald eagle and American black bear.

Colorado

Colorado Lesser Prairie Chicken SAFE—Goal to enroll 9,900 acres of short and midgrass sand sagebrush prairie in CRP to maintain and enhance lesser prairie chicken populations in Colorado.

Colorado Plains Sharp-tailed Grouse SAFE—Goal to re-enroll in CRP and enhance 1,475 acres of existing grassland habitat critical to improve nesting and brood-rearing cover for plains sharp-tailed grouse populations in northern Colorado.

Colorado Shortgrass Prairie SAFE—Goal to enroll 1,475 acres in CRP to preserve the integrity and expand the extent of shortgrass prairie managed for wildlife species in eastern Colorado.

Colorado Western Slope Grouse SAFE—Goal to enroll 5,850 acres in CRP to restore and enhance habitat for the Columbian sharp-tailed grouse, greater sage grouse and Gunnison sage grouse.

Georgia

Georgia Restoring Native Pine Savanna SAFE—Goal to enroll 8,800 acres of pine savanna in CRP to establish and maintain habitat for northern bobwhite and other species that depend on native groundcover.

Idaho

Idaho Columbian Sharp-tailed Grouse SAFE—Goal to enroll 64,300 acres in CRP to increase quality grassland, shrub steppe, mountain brush and riparian habitat for the Columbian sharp-tailed grouse.

Illinois

Illinois Mercer County SAFE—Goal to enroll 800 acres in CRP to increase pheasant habitat through establishing permanent native grasses and forbs, which will also benefit other upland wildlife species.

Illinois Prairie Habitat SAFE—Goal to enroll 20,600 acres in CRP to restore grassland and wetland habitats to benefit the Massassauga rattlesnake and other wetland prairie species such as Kirtland's water snake and the northern crawfish frog.

Illinois Spoon River SAFE—Goal to enroll 3,600 acres in CRP to enhance habitat for pheasants; other upland game and song bird species will also benefit.

Illinois Sangamon SAFE—Goal to enroll 2,000 acres in CRP to benefit northern bobwhite quail and many other grassland species, including the northern harrier, Franklin's ground squirrel, Kirtland's water snake and the lined snake.

Indiana

Indiana Bat SAFE—Goal to enroll 2,100 acres in CRP to restore forest habitat and forested riparian habitat for the Indiana Bat.

Indiana Northern Bobwhite SAFE—Goal to enroll 5,875 acres in CRP to restore grassland and shrub-land habitats for the northern bobwhite quail.

Indiana Henslow's Sparrow SAFE—Goal to enroll 3,075 acres in CRP to restore grassland habitat for the Henslow's sparrow and other grassland songbirds.

Indiana Sedge Wren/Grasshopper Sparrow SAFE—Goal to enroll 2,050 acres in CRP to restore wetland and grassland complexes as migratory habitat for shorebirds and nesting habitat for the sedge wren and grasshopper sparrow.

Iowa

Iowa Early Successional/Neotropical Birds SAFE—Goal to enroll 3,500 acres in CRP to develop habitat required by numerous bird species declining nationwide.

Iowa Gaining Ground SAFE—Goal to enroll 31,650 acres in CRP to increase populations of ring-necked pheasant, dickcissel, bobolink and eastern meadowlark by enhancing native plant communities and buffers around and near existing remnants of native prairie.

Iowa Grand River SAFE—Goal to enroll 4,500 acres of cropland or other acreage in CRP to create higher quality native grasslands for native habitat for five grassland-dependent bird species.

Kansas

Kansas Upland Game Birds SAFE—Goal to enroll/maintain 30,100 acres of diverse native grass and forb cover in CRP to improve populations of bobwhite quail and other grassland-associated wildlife.

Kansas Lesser Prairie Chicken Habitat SAFE—Goal to enroll 30,000 acres in CRP to restore mixed-grass prairies to maintain and enhance lesser prairie chicken populations.

Kentucky

Kentucky Early Successional and Bottomland Hardwood Restoration SAFE—Goal to enroll 8,600 acres in CRP to benefit the northern bobwhite quail.

Louisiana

Louisiana Gulf Coast Prairies SAFE—Goal to enroll 3,500 acres in CRP to restore grassland and shallow water habitats.

Louisiana Bayou Bartholomew SAFE—Goal to enroll 1,700 acres in CRP to identify, protect and restore critical mussel and bald eagle habitat, including bottomland hardwood, native grasses and riparian buffers.

Michigan

Michigan Diverse Grassland SAFE—Goal to enroll 7,500 acres of diverse native grassland in CRP to benefit a variety of rare or declining species in the lower peninsula of Michigan.

Michigan Native Pollinators SAFE—Goal to enroll 2,500 acres in CRP to benefit native pollinators, including bees, butterflies and moths.

Minnesota

Minnesota Back Forty SAFE—Goal to enroll 33,900 acres in CRP to restore and enhance habitat for ring-necked pheasants, building upon existing habitats established for waterfowl, greater prairie chicken and grassland bird populations.

Mississippi

Mississippi Black Bear SAFE—Goal to enroll 4,950 acres in CRP to restore native bottomland hardwood forests to increase habitat for the Louisiana black bear and the American black bear.

Mississippi Black Belt SAFE—Goal to enroll 2,500 acres in CRP to increase native grassland habitats for rare, threatened, endangered and declining species.

Mississippi Bobwhite Quail SAFE—Goal to enroll 9,450 acres in CRP to increase native grassland habitats for northern bobwhite quail.

Missouri

Missouri Bobwhite Quail SAFE—Goal to enroll 14,650 acres in CRP to provide nesting and brood-rearing habitat for bobwhite quail.

Missouri Sand Grassland SAFE—Goal to enroll 3,250 acres in CRP to restore sand prairie, sand woodland and sand savannas to benefit such species as the Illinois chorus frog, eastern spadefoot toad and northern bobwhite.

Missouri Nesting Habitat SAFE—Goal to enroll 3,700 acres in CRP to significantly increase available nesting habitat for greater prairie chickens and other grassland-dependent birds.

Montana

Montana Pheasant Winter Cover SAFE—Goal to enroll 10,000 acres in CRP to provide blocks of grass or shrub cover for ring-necked pheasant and other upland birds near existing permanent winter cover.

Montana Prairie Pothole SAFE—Goal to enroll 7,700 acres in CRP to expand habitat for ducks, ring-necked pheasant, Hungarian (gray) partridge, native sharp-tailed grouse and neotropical birds by seeding herbaceous vegetation in areas of high wetland densities or areas that are adjacent to semi-permanent wetlands.

Montana Sagebrush SAFE—Goal to enroll 1,000 acres in CRP to restore cropland to sagebrush habitat suitable for wildlife such as sage grouse, sage sparrow and sage thrasher.

Nebraska

Nebraska Tallgrass SAFE—Goal to enroll 11,450 acres in CRP to expand habitat for greater prairie chickens in the tallgrass prairie region.

Nebraska Upland Birds SAFE—Goal to enroll 15,950 acres in CRP to enhance habitat for upland wildlife such as game birds including northern bobwhite quail and ring-necked pheasant.

New Mexico

New Mexico Lesser Prairie Chicken SAFE—Goal to enroll 2,600 acres in CRP to benefit the lesser prairie chicken by restoring native grasslands for breeding and brood-rearing.

North Dakota

North Dakota Coteau-Drift SAFE—Goal to enroll 20,000 acres in CRP to maintain and increase habitat for priority species of waterfowl, water birds, shorebirds and terrestrial birds.

North Dakota Sagebrush SAFE—Goal to enroll 1,000 acres in CRP to increase sage grouse populations by restoring cropland to sagebrush habitat; will also benefit sage sparrow, sage thrasher, sharp-tailed grouse, gray partridge and mule deer.

North Dakota Tallgrass SAFE—Goal to enroll 6,090 acres in CRP to restore cropland to native tallgrass prairie to maintain and increase greater prairie chicken and sharp-tailed grouse populations.

North Dakota Habitat for Pheasants SAFE—Goal to enroll 18,000 acres in CRP of habitat for economically significant species such as ring-necked pheasant, sharp-tailed grouse, Hungarian partridge, waterfowl and big game.

Ohio

Ohio Big Island/Killdeer SAFE—Goal to enroll 925 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators and grassland-dependent and migratory bird species.

Ohio Grand River/Mosquito SAFE—Goal to enroll 100 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators and grassland-dependent and migratory bird species.

Ohio Killbuck SAFE—Goal to enroll 100 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators and grassland-dependent and migratory bird species.

Ohio Kitty Todd SAFE—Goal to enroll 250 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators, including Karner blue butterfly, and grassland-dependent and migratory bird species.

Ohio LaSuAn Grasslands SAFE—Goal to enroll 2,500 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators, waterfowl and grassland-dependent and migratory bird species.

Ohio Paint Creek SAFE—Goal to enroll 875 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators and grassland-dependent bird species.

Ohio Western Lake Erie Marshes SAFE—Goal to enroll 400 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators, waterfowl and grassland-dependent bird species.

Ohio Grassland Bird SAFE—Goal to enroll 850 acres in CRP to restore native grasslands, prairies and wetlands to benefit pollinators and grassland-dependent bird species.

Ohio Grasslands for Pheasants SAFE—Goal to enroll 5,600 acres in CRP to create high quality pheasant habitat or rehabilitate habitat for pheasants as well as other grassland birds.

Oklahoma

Oklahoma Mixed Grass Prairie SAFE—Goal to enroll 15,100 acres in CRP to restore mixed-grass prairie to benefit northern bobwhite, Cassin's sparrow and other grassland birds.

Oregon

Oregon Heppner Mule Deer SAFE—Goal to enroll 5,500 acres of high quality mule deer forage in CRP to benefit mule deer and also Rocky Mountain elk, pheasants, Hungarian partridge, chukar and other grassland birds.

Pennsylvania

Pennsylvania Seasonal Pools/Early Successional/Grass SAFE—Goal to enroll 5,200 acres in CRP to improve habitat and increase populations of sensitive wildlife.

South Dakota

South Dakota Sagebrush SAFE—Goal to enroll 500 acres in CRP to benefit the sage grouse population by restoring cropland to sagebrush habitat; will also benefit sage sparrows and sage thrashers.

South Dakota Pheasants SAFE—Goal to enroll 50,200 acres in CRP to provide block grass acreages for ring-necked pheasant and other upland birds; will also benefit sharp-tailed grouse, prairie chickens and upland nesting ducks.

South Dakota Western SD Grassland Wildlife Habitat SAFE—Goal to enroll in CRP 18,000 acres of habitat critical to declining grassland birds, including short-eared owl, grasshopper sparrow, dickcissel, bobolink, sharp-tailed grouse, long-billed curlew and upland nesting waterfowl.

Tennessee

Tennessee Wetlands SAFE—Goal to enroll 500 acres in CRP to restore high quality wetlands habitat for wildlife.

Tennessee Trees SAFE—Goal to enroll 600 acres in CRP to establish high quality bottomland hardwoods on wetlands important to wildlife.

Tennessee Grass SAFE—Goal to enroll 6,000 acres in CRP to develop critical habitats for bobwhite quail and other declining wildlife species.

Texas

Texas Gulf Coast Prairies SAFE—Goal to enroll 14,400 acres in CRP to restore grassland and shallow water habitats to benefit a variety of bird species.

Texas Lower Rio Grande Thornscrub SAFE—Goal to enroll 5,000 acres in CRP to restore Tamaulipan thornscrub habitat for ocelot and other wildlife.

Texas Mixed Grass SAFE—Goal to enroll 45,000 acres in CRP to reconnect geographically and reproductively isolated populations of lesser prairie chickens by creating native mixed grass prairie and travel corridors.

Washington

Washington Coastal Roosevelt Elk SAFE—Goal to enroll 500 acres in CRP to increase habitat for elk herds on the Olympic Peninsula.

Washington Columbia Basin SAFE—Goal to enroll 500 acres in CRP to benefit ring-necked pheasant and California quail; will also benefit burrowing owl and Washington ground squirrel.

Washington Palouse Prairie SAFE—Goal to enroll 2,000 acres in CRP to improve and increase habitat for a variety of wildlife species, including grassland- and shrub-land-nesting birds and native pollinators by re-establishing diverse stands of grasses, forbs and shrubs.

Washington Shrub-steppe SAFE—Goal to enroll 5,200 acres in CRP to benefit shrub-steppe bird species, including sharp-tailed grouse, sage grouse, sage sparrow, sage thrasher, loggerhead shrike, grasshopper sparrow, savannah sparrow and Brewer's sparrow.

Washington Sage and Sharp-tailed Grouse SAFE—Goal to enroll 63,000 acres in CRP to benefit native prairie grouse and other birds, including sharp-tailed grouse, sage grouse, sage sparrow, sage thrasher, loggerhead shrike, grasshopper sparrow, savannah sparrow and Brewer's sparrow.

Wisconsin

Wisconsin Glacial SAFE—Goal to enroll 2,250 acres in CRP to establish a mosaic of grasslands and wetlands in a predominantly agricultural landscape to help sustain populations of waterfowl, pheasants and grassland songbirds.

Wisconsin Shortgrass SAFE—Goal to enroll 2,000 acres of shortgrass prairie in CRP to increase Karner Blue butterfly habitat.

Wisconsin Southwest Grassland SAFE—Goal to enroll 4,000 acres in CRP to restore and maintain grassland and prairie habitat for 14 bird species.

Wisconsin Central Grassland SAFE—Goal to enroll 2,000 acres in CRP to restore native mid-shortgrass and wetland habitats for neotropical migrant songbirds, including Henslow's sparrow, grasshopper sparrow, sedge wren and bobolink.

Wisconsin Western Prairie SAFE—Goal to enroll 2,500 acres in CRP to maintain current grassland and establish new acres of native and introduced grasses to benefit grassland-dependent species.

Wyoming

Wyoming Northeast Habitat Restoration Area SAFE—Goal to enroll 10,000 acres in CRP to create, enhance or restore critical habitat for sage grouse, sharp-tailed grouse, gray partridge, ducks, geese, mule deer, pronghorn antelope, wild turkeys and small mammals.

Appendix D: Erodibility Index Data Tables

CRP Acres with an Erodibility Index between 8 and 15 and Their Percent of the State's Total CRP Acres

	2006		2007		2008		2009		2010	
	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total
Alabama	214,379	43.6	214,526	43.5	199,399	43	187,854	42.1	146,142	35
Arkansas	60,103	27.2	60,353	25.3	55,733	23.8	54,640	22.1	41,476	16.6
Colorado	1,671,982	70.4	1,734,214	70.1	1,693,143	69.4	1,674,517	69.2	940,930	46.5
Georgia	121,206	39.5	117,736	37.6	106,790	32.3	103,771	31	79,329	24.7
Idaho	403,706	50.4	401,907	48.7	345,848	44.9	337,518	44.7	334,649	46.7
Illinois	188,731	17.9	193,083	17.7	205,393	19.3	199,654	19.2	119,256	11.6
Indiana	75,135	24.3	74,831	23.6	68,574	23.2	64,031	22	41,949	14.5
Iowa	144,725	7.3	147,192	7.4	157,814	8.7	152,759	8.9	74,064	4.5
Kansas	2,038,215	66	2,130,499	65.3	1,951,764	62.4	1,926,381	62.1	1,652,749	59.3
Kentucky	23,551	6.6	23,774	6.6	31,891	8.2	32,795	8.4	11,070	2.8
Louisiana	71,943	24.9	72,126	23.2	86,224	28.3	87,098	28.4	60,682	19
Michigan	56,729	20.8	65,402	20.4	49,517	19	43,520	18.1	31,978	13.7
Minnesota	237,951	13.2	239,600	13	217,305	12.2	199,928	11.7	185,129	11.2
Mississippi	154,537	16.2	152,382	15.9	142,137	15.8	139,917	15.8	98,743	11.4
Missouri	201,663	12.8	199,683	12.5	191,973	13.2	181,164	12.7	125,636	9
Montana	2,458,934	70.6	1,463,576	70.7	2,309,367	70.1	2,252,246	70.3	1,955,569	63.5
Nebraska	691,027	53.5	722,317	53.8	686,232	55.6	663,077	55	486,988	44.5
New Mexico	200,216	33.5	199,808	33.8	202,983	35.6	202,471	3.9	160,112	29.5
N. Dakota	1,419,389	42	1,412,818	41.8	1,195,849	40.1	1,133,483	39.7	1,040,002	38.2
Ohio	90,686	27.5	90,855	25	88,729	25.1	83,324	23.9	61,717	17.9
Oklahoma	653,952	61.9	657,123	61.1	602,306	61.3	584,636	60.9	458,893	53.3
Oregon	333,883	61.6	348,816	61.4	291,088	51.6	289,243	51.6	298,187	54.4
Pennsylvania	29,798	13.4	29,137	12.6	62,045	27.1	62,699	28.1	1,487	0.6
S. Dakota	397,816	26.2	408,387	26.1	351,377	26.9	341,842	27.3	247,064	22.1
Tennessee	46,424	16.7	46,025	16.5	39,718	16.9	38,071	16.8	25,515	11.7
Texas	1,853,650	45.8	1,862,385	45.7	1,791,201	45.4	1,721,396	44.7	1,296,973	39.2
Utah	63,709	30.9	63,909	30.6	61,961	31.1	60,827	31.2	42,494	29.2
Washington	586,086	39.8	602,728	38.7	594,193	38.6	537,516	35.5	478,803	33.1
Wisconsin	100,949	16.3	99,975	16.4	85,296	16.2	68,583	14.9	51,763	12
Wyoming	171,977	60.2	170,866	60.1	164,540	59.5	163,909	60.5	84,792	40.6
Top 30	**14,763,052**	**34.7**	**14,006,033**	**34.17**	**14,030,390**	**34.16**	**13,588,870**	**32.69**	**10,634,141**	**27.21**
U.S. Total	**15,045,942**	**41.7**	**15,277,038**	**41.5**	**14,285,524**	**41.2**	**13,830,824**	**41**	**10,797,892**	**34.4**

CRP Acres with an Erodibility Index (EI) Rating of Greater Than 15 and Their Percent of the State's Total CRP Acres

	2006		2007		2008		2009		2010	
	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total
Alabama	178,995	36.4	177,789	36	162,168	34.9	156,044	34.9	164,426	39.3
Arkansas	43,657	19.8	44,096	18.5	38,482	16.4	38,024	15.3	39,220	15.7
Colorado	627,635	26.4	643,112	26	636,869	26.1	631,296	26	984,899	48.7
Georgia	37,142	12.1	37,049	11.8	32,894	9.9	31,632	9.4	36,944	11.5
Idaho	129,009	16.1	136,402	16.5	146,045	18.9	143,455	19	122,845	17.1
Illinois	472,227	44.9	475,857	43.7	444,500	41.8	420,402	40.5	408,525	39.9
Indiana	99,244	32.2	100,218	31.6	89,589	30.3	81,328	27.9	79,651	27.6
Iowa	1,294,524	66	1,284,604	65.1	1,127,891	62.3	1,000,527	58.7	897,206	54.8
Kansas	390,396	12.6	395,724	12.1	368,951	11.8	364,646	11.7	431,559	15.5
Kentucky	271,653	76.7	270,234	75.4	290,209	75.3	286,055	73.3	201,755	52.7
Louisiana	22,086	7.6	21,724	7	21,724	7.1	21,210	6.9	21,071	6.6
Michigan	11,595	4.2	11,276	4	9,206	3.5	9,494	3.9	8,865	3.8
Minnesota	66,357	3.6	67,021	3.6	63,665	3.5	53,465	3.1	50,781	3
Mississippi	471,257	49.5	465,923	48.7	412,467	46	400,066	45.2	406,125	47.1
Missouri	233,334	78.2	1,237,509	77.6	1,112,130	76.5	1,098,821	77.3	1,046,563	75.1
Montana	847,106	24.3	840,849	24.1	771,787	23.4	732,814	22.8	854,029	27.7
Nebraska	410,377	31.7	415,011	30.9	350,769	28.4	326,102	27	361,759	33.1
New Mexico	393,129	65.7	387,109	65.5	360,699	63.2	356,809	62.9	374,447	69.1
N. Dakota	105,779	3.1	108,367	3.1	116,389	3.9	111,144	3.8	123,954	17.2
Ohio	61,414	18.6	60,629	16.7	52,084	14.7	48,627	13.9	49,562	14.4
Oklahoma	273,249	25.8	269,868	25.1	238,281	24.2	236,928	24.7	275,828	32
Oregon	148,708	27.4	152,253	26.8	201,196	35.7	200,699	35.8	173,454	31.6
Pennsylvania	91,057	41.4	88,727	38.5	136,999	59.8	129,297	58	13,196	5.9
S. Dakota	31,106	2	31,346	2	26,618	2	25,604	2	29,940	2.6
Tennessee	203,192	73.4	203,798	73.3	169,040	72	16,809	71.3	159,237	73.2
Texas	199,097	29.6	1,194,982	29.3	1,131,837	28.7	1,111,581	28.8	1,210,038	36.6
Utah	4,663	2.2	4,722	2.2	4,544	2.2	4,021	2	5,801	3.9
Washington	201,885	13.7	259,804	16.6	249,981	16.2	312,881	20.6	283,151	19.6
Wisconsin	352,616	57.1	347,257	57.2	291,090	55.3	254,814	55.4	234,244	54.7
Wyoming	106,687	37.4	106,302	37.3	104,479	37.8	99,700	36.8	116,819	55.9
Top 30	**7,779,176**	**31.3**	**9,839,562**	**30.8**	**9,162,583**	**31**	**8,704,295**	**30.6**	**9,165,894**	**31.1**
U.S. Total	**10,029,605**	**27.8**	**10,090,480**	**27.4**	**9,345,034**	**26.9**	**8,999,792**	**26.6**	**9,367,488**	**29.9**

FORMULATION OF THE 2012 FARM BILL (DAIRY PROGRAMS)

THURSDAY, APRIL 26, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:30 p.m., in Room 1300 of the Longworth House Office Building, Hon. Thomas J. Rooney [Chairman of the Subcommittee] presiding.

Members present: Representatives Rooney, Goodlatte, King, Neugebauer, Conaway, Huelskamp, DesJarlais, Gibson, Ribble, Noem, Cardoza, Scott, Courtney, Boswell, Baca, Schrader, Peterson (*ex officio*), Welch, and Costa.

Staff present: John Goldberg, Tamara Hinton, Lauren Sturgeon, Suzanne Watson, Michelle Weber, Nathaniel B. Fretz, Liz Friedlander, Robert L. Larew, John Konya, Merrick Munday, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

The CHAIRMAN. The hearing of the Subcommittee on Livestock, Dairy, and Poultry to discuss dairy programs in advance of the 2012 Farm Bill, will come to order.

Good afternoon. I would like to welcome all of you to the hearing on the 2012 Farm Bill. I would like to extend my thanks to the Ranking Member, Mr. Cardoza of California, for his help in preparing for this hearing and to all the witnesses for their willingness to participate in this process.

Today's hearing, which will focus primarily on the dairy title of the next farm bill, is part of a series of hearings that the House Agriculture Committee has convened both in Washington and around the country to receive input from the agricultural community on the future of U.S. farm policy.

As many of you are aware, last summer's deficit reduction legislation led to an effort by the leaders of the House and the Senate Agriculture Committees to develop a plan to achieve significant budgetary savings while still maintaining a viable producer safety net. Although the Super Committee was ultimately unsuccessful, the process of developing those recommendations did result in a great deal of dialogue and to a certain extent a framework by which we might be able to begin the debate on the next farm bill. This was particularly significant for the dairy sector. This comprehensive reform legislation had been introduced prior to the deficit reduction process and has been under discussion and further development ever since.

To be clear, we are not considering specific legislation at today's hearing. That said, it is important to recognize that a tremendous amount of work has already been done within the dairy industry and will be extremely helpful as we move forward.

I commend those who have come to the table in a productive and cooperative manner to work towards solutions. At our dairy audit hearing last fall, we got a sense for the inadequacy of some of our current dairy programs. We know that innovative ideas are needed in order to ensure our program support for our producers, facilitate product and market development, and continue to maintain the availability of safe, abundant and affordable product for our consumers.

While consensus is certainly developing, we recognize that there remain important areas of disagreement that still must be addressed. To facilitate this dialogue, we have asked Dr. Scott Brown of the Food and Agricultural Policy Research Institute to evaluate some of the key concepts that have been under consideration and report back to this Committee on the economic impacts of these policy options. We are pleased that Dr. Brown has completed his review and has made himself available this afternoon to present his work. Among the concepts that Dr. Brown has had under review are, first, repeal of the Dairy Product Price Support Program, Milk Income Loss Contract Program, and Dairy Export Incentives Program; second, establishment of a margin protection program that includes both a basic level of protection and a tiered, supplemental, premium-based insurance package; and third, establishment of a supply management program that would be linked to voluntary participation in the margin protection program.

While we are aware that the first two points have a great deal of support within the industry, we understand that the third item remains controversial. As such, it is important to understand how this program would work and what its impact would be. We understand that there are strong feelings on both sides of this issue and recognize that this is unlikely to be fully resolved with today's hearing. We would, however, encourage that the conversation today be respectful of the various points of view and seek, if possible, to provide common ground on which we can develop into the next farm bill.

[The prepared statement of Mr. Rooney follows:]

PREPARED STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

Good afternoon. I would like to welcome you all to this hearing on the 2012 Farm Bill. I'd like to extend my thanks to Ranking Member Cardoza for his help in preparing for this hearing and to all of the witnesses for their willingness to participate in this process. Today's hearing, which will focus primarily on the dairy title of the next farm bill, is part of a series of hearings that the House Agriculture Committee has convened both in Washington and around the country to receive input from the agricultural community on the future of U.S. farm policy.

As many of you are aware, last summer's deficit reduction legislation led to an effort by the leaders of the House and Senate Agriculture Committees to develop a plan to achieve significant budgetary savings while still maintaining a viable producer safety net. Although the Super-Committee was ultimately unsuccessful, the process of developing those recommendations did result in a great deal of dialogue and, to a certain extent, a framework by which we might begin debate on the next farm bill.

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Among the concepts that Dr. Brown has had under review are:

- ONE, Repeal of the Dairy Product Price Support Program; Milk Income Loss Contract program; and Dairy Export Incentives Program;
- TWO, Establishment of a margin protection program that includes both a basic level of protection and a tiered, supplemental, premium-based insurance package; and
- THREE, Establishment of a supply management program that would be linked to voluntary participation in the margin protection program.

While we are aware that the first two points have a great deal of support within the industry, we understand that the third item remains controversial. As such, it is important to understand how this program would work and what its impact would be.

We understand that there are strong feelings on both sides of this issue and recognize that this is unlikely to be fully resolved with today's hearing. We would however encourage that the conversation today be respectful of the various points of view and seek if possible to provide common ground on which we can develop the next farm bill.

With that, I would yield to my Ranking Member, Mr. Cardoza, for any comments he would like to make.

The CHAIRMAN. With that, I would like to now yield to my friend and Ranking Member, Mr. Cardoza, for any comments he would like to make. Mr. Cardoza.

OPENING STATEMENT OF HON. DENNIS A. CARDOZA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. CARDOZA. Well, thank you, Chairman Rooney, and I truly do want to thank my friend, the Chairman, for holding this hearing today. He and I have worked together on the Subcommittee to address the most pressing issues facing the livestock, dairy and poultry industries, and I look forward to working with him as we move forward to what I hope will be a successful farm bill. I would also like to thank our witnesses here who have graciously agreed to give up their time and energy to testify before us today. As the farm bill process moves forward, it is input like yours from folks like you that will color both our understanding of the issues and our pathways to solutions.

As everyone knows, dairy policy is fraught with obstacles. Since the first day when I was Agriculture Committee Chair at the State Legislature in California, the one issue area that has always been the most treacherous for the Agriculture Committee seems to be dairy policy, and I think that this year it won't be any different. There are significant and divergent opinions between different states and different regions of the country. Each area faces its own challenges that are different and must be handled differently from one another. We as policymakers must be sensitive to these different geographical challenges and work to craft a consensus package that meets the needs of most, if not all, and that is not an easy feat. I am happy that the process is finally moving. Frankly, we should have probably been doing this much earlier but I am glad we are at this point now.

In 2009, we saw a tremendous drop in milk produces coupled with a crushing increase in feed and other input costs. This drove a number of my dairymen from my area and from the State of California out of business. These kinds of fluctuations are very unacceptable and more than anything else I want a solution that will help even out the highs and lows and keeps my constituents from being thrown out of business sort of haphazardly.

Dairy farming as we all know is not a business for the faint of heart, but my goal is to smooth out the roller coaster as best we possibly can. While engaged in this process, however, it is extremely important that we have the facts and data that drive the discussion and not just base our decisions on rhetoric. The economic analysis that we will hear about today is a step in the right direction. Let me clear when I say that delay tactics, false information and hyperbole will not be tolerated. It is time for us all to buckle down and find a consensus that we can live with so that we do not inadvertently throw away our vital domestic dairy industry.

With that, Mr. Chairman, thank you very much for doing this. I look forward to the testimony of the witnesses and I look forward to being successful as we move forward.

[The prepared statement of Mr. Cardoza follows:]

PREPARED STATEMENT OF HON. DENNIS A. CARDOZA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Good afternoon.

I'd like to thank our Chairman, Mr. Rooney, for holding this hearing today. He and I have worked together on the Subcommittee to address the most pressing issues facing the livestock, dairy, and poultry industries and I look forward to working with him further as we write a farm bill.

I'd also like to thank our witnesses who have graciously given their time and energy to testify before us today. As the farm bill process moves forward, it is input from folks like these that color both our understanding of the issues and the pathway to a solution.

As everyone knows, dairy policy is wrought with obstacles. There are significant and divergent opinions between different states and regions throughout the country. Each area faces its own challenges that are different and must be handled differently than other areas. We, as policy makers, must be sensitive to the different geographical challenges and work to craft a consensus package that meets the needs of most. This is no small feat.

I am happy that the process is finally moving forward. Frankly, we should have been working on this earlier, but I'm glad we are at this point now. In 2009, we saw a tremendous drop in milk prices coupled with a crushing increase in feed and other input costs. This crisis drove dairymen in my district and in the State of California out of business.

This is unacceptable and I, more than anything, want a solution that will help even-out the highs and lows and keeps my constituents in business. Dairy farming is not a business for the faint of heart, but my goal is to smooth out the roller coaster as best as I can.

While engaged in this process, however, it is extremely important that have facts and data drive the discussion, and not extreme rhetoric. The economic analysis that we will hear about today is a step in the right direction.

Let me be clear when I say that delay tactics, false information, and hyperbole will not be tolerated. It's time to buckle down and find a consensus that we can live with so that we do not inadvertently throw away our vital domestic dairy industry.

Thank you.

The CHAIRMAN. The chair thanks the Ranking Member for his statement and would request that other Members submit their opening statements for the record so the witnesses may begin their testimony and ensure that there is ample time for questions.

I would like to now welcome our panel of witnesses to the table. As mentioned before, Dr. Scott Brown, Assistant Research Professor, Integrated Policy Group, Division of Applied Social Sciences, College of Agriculture, Food and Natural Resources from the University of Missouri, Food and Agricultural Policy Research Institute, Columbia Missouri; Mr. Joe Wright, V&W Farms, Inc., on behalf of Southeast Milk in Avon Park Florida; Mr. Thomas Barcellos, Board President, Western United Dairymen, Porterville, California; Mr. Jerry Kozak, President and Chief Executive Officer, National Milk Producers Federation of Arlington, Virginia; and finally, I would like to turn to my colleague, Mrs. Noem of South Dakota, to introduce our fourth witness.

Mrs. NOEM. Thank you, Mr. Chairman. I appreciate the opportunity to introduce Mr. Jon Davis to the Committee Members today.

Jon Davis is the CEO of Davisco Foods International, which is an international cheese and food ingredient company headquartered in Le Sueur, Minnesota. They also own the Lake Norden cheese plant, which is not too far from my home as well. They have a number of cheese companies across the Midwest, and they employ almost 200 employees at the Lake Norden plant, which is in my home county. That plant alone produces over 300,000 pounds of cheese a day. So I look forward to hearing from Jon, hearing his testimony and how dairy policy will impact his business and his employees.

So thank you, Mr. Chairman, and with that, I will yield back.

The CHAIRMAN. Thank you, Mrs. Noem.

While we normally limit oral testimony from witnesses to 5 minutes, and we will do that today, I would like to offer Dr. Brown a little additional latitude as we have invited him here to provide testimony on the economic analysis he completed at the request of the Committee. As we have a full panel and a limited amount of time, I would request that all the other witnesses please keep their remarks within the allotted time frame so that we have plenty of time for questions from Members. So Dr. Brown, if you are ready, please proceed.

STATEMENT OF SCOTT BROWN, PH.D., ASSISTANT RESEARCH PROFESSOR, INTEGRATED POLICY GROUP, DIVISION OF APPLIED SOCIAL SCIENCES, COLLEGE OF AGRICULTURE, FOOD AND NATURAL RESOURCES, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Dr. BROWN. Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee, thank you for the opportunity to appear today to discuss dairy program alternatives for the 2012 Farm Bill.

The concept of providing dairy producer margin protection gained substantial interest due to the combination of extremely high feed costs and low milk prices the industry experienced in 2009. The annual decline in 2009 in U.S. milk receipts of $10.5 billion set a record. Even in percentage terms, the 43 percent reduction in 2009 milk receipts had never been experienced by the industry before. The 2009 record event is just another of the cyclical lows that the industry has experienced on a more regular basis over the last decade.

This recent cycle of record high and low milk receipt changes has left the industry searching for mechanisms to help stabilize producer finances. The volatility dairy producers have experienced in the last few years often made what appeared to be good financial decisions turn into tough financial results when the markets for feed and milk products moved so quickly. This led to the policy development process undertaken by the National Milk Producers Federation that resulted in the original concept of *Foundation for the Future.* Many of these original concepts were first introduced in Congress by House Agriculture Committee Ranking Member Colin Peterson and Representative Mike Simpson as the Dairy Security Act of 2011. The major features of the DSA 2011 program as modified in this analysis that must be discussed to interpret how the program will operate are the base program and the supplemental program under the Dairy Producer Margin Protection Program and the Dairy Market Stabilization Program.

It remains important to highlight the MDSA 2011 program is a voluntary producer program. A producer who chooses margin protection under DPMPP is subject to the provisions of DMSP and is eligible for payments under the base and supplemental programs. The particular assumptions used for my analysis of the program are contained in the full report that is attached to my testimony. Every component of the proposed dairy program hinges on the margin defined by the program.

It is important to understand the construction of the MDSA 2011 margin and how it has moved historically. The margin calculation used here is the same margin in the recently released Senate Agriculture, Nutrition, and Forestry Committee farm bill language. One way to look at the construction of the margin is to compare the milk price used in the margin calculation relative to the feed components of corn, soybean meal and alfalfa. The relative movements in these two parts of the margin calculation are critical. The tendencies for these components to move together can be seen in the current graph. The correlation between the milk price and feed cost is a .64 over the 1980 to 2011 period. Of course, the measure of the correlation between these data series is sensitive to the time period chosen. Eliminating 2011 from the calculation reduces the correlation to near .5. Higher correlation reduces government outlays and operation of the program features.

The next figure shows the historical margin using actual observations of the milk and feed price components. It is important to understand that these margin outcomes would have changed had MDSA 2011 program been in operation. The figure highlights the abrupt change that occurred in the margin from late 2007 to mid-2009. Over the 1980 to 2011 period, the MDSA 2011 margin averaged $8.30 per hundredweight while over the 2000 to 2011 period it averaged $8.60 per hundredweight. Analysis of MDSA 2011 program depends on the level of participation in the program. To move beyond a simple assumption of producer participation in the program or a range of participation levels, the representative farm model maintained at Texas A&M University by the Agricultural and Food Policy Center was used to determine which of the AFPC dairy farms would participate and at what level of supplemental coverage to maximize their net cash income. Their report, also attached to my testimony, given the results from the representative farms models, the aggregate model was calibrated to assume that 70 percent of the milk produced in the country would be from operations participating in the program and that participating milk would purchase supplemental coverage at $6.50 at a 90 percent supplemental coverage level.

My analysis of the MDSA 2011 scenario hinges on a forward-looking baseline that allows for a point of comparison for this analysis. This baseline is very similar to the long-term baselines constructed by USDA and the Congressional Budget Office. On average, the MDSA 2011 baseline margin averages $9.50 per hundredweight. The baseline uses a stochastic approach so that the effects of the policy proposal can be evaluated over different market conditions. The results show that milk supplies are on average only .1 percent below baseline levels under the MDSA 2011 scenario. My report shows only a very modest impact on milk output from operation of the program.

Dairy product export levels are also down slightly under the scenario. The next graph shows that nonfat dry milk exports have an average decline of 4 million pounds, which is a decline of .3 percent under the scenario. There has been much industry discussion on the effects of DMSP on U.S. dairy exports. Two factors drive the small impact shown here. First, the stochastic output from the analysis shows DMSP operation does not occur often and only about 7½ percent of the months across all 500 stochastic alternatives is the program operational.

Second, when DMSP operates, it lasts a very short period of time because of the world price triggers built into the language. None of the 500 outcomes show long-term multi-year operation of DMSP. The largest single year decline in nonfat dry milk exports is about 25 million pounds in any of the 500 outcomes. This decline is in comparison to 1.3 billion pounds of nonfat dry milk exports occurring under the baseline and is less than a two percent decline.

The next figure provides an indication of the probability of a base program and a $6.50 supplemental program payment in the first year and midway through the analysis period. There is an 18 percent chance of a base program payment being made in 2012 and that probability decreases to a seven percent chance of a baseline program payment in 2017. The probability of receiving a $6.50 supplemental program payment in 2012 is 61 percent and declines to 30 percent in 2017. The higher probabilities associated with the supplemental program highlights the important choices producers will make each year regarding supplemental coverage. This is likely the most important feature that allows producers to reduce their risk of experiencing low margins.

Another way to measure the reduction in volatility from the operation of the program is to look at the variance in the baseline margin *versus* margin under MDSA 2011. This figure shows that program results in about a 75¢ reduction in margin variance under the program's operation. It is primarily the lift in low margin outcomes provided by the program that results in the reduction margin variance shown in the figure.

In summary, the analysis of the program shows that the combination of program features, DMSP and DPMPP reduces margin volatility in the dairy industry. There are only small milk supply effects on average, producer margins increase on average with most lift in producer margins occurring in low margin environment outcomes. Dairy product trade is only slightly lower on average as a result of the DMSP triggers for U.S. to world dairy product price differences. Milk and dairy prices have small increases as a result of smaller milk supplies and there are no long periods of program operation for either DPMPP or DMSP.

Thank you for the opportunity to discuss the quantitative effects of the MDSA 2011 program. I look forward to providing further clarification on my analysis and answer any questions you have about the program.

[The prepared statement of Dr. Brown follows:]

PREPARED STATEMENT OF SCOTT BROWN, PH.D., ASSISTANT RESEARCH PROFESSOR, INTEGRATED POLICY GROUP, DIVISION OF APPLIED SOCIAL SCIENCES, COLLEGE OF AGRICULTURE, FOOD AND NATURAL RESOURCES, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee, thank you for the opportunity to appear today to discuss dairy program alternatives for the 2012 Farm Bill. The concept of protecting dairy producer margins gained substantial interest due to the combination of extremely high feed costs and low milk prices the industry experienced in 2009. The annual decline in 2009 U.S. milk receipts of $10.5 billion set a record for data going back to the early 1920s. Even in percentage terms, the 43 percent reduction in 2009 milk receipts had never been experienced by the dairy industry before. The 2009 record event is just another cyclical low that the industry has experienced on a more regular basis over the last decade. This recent cycle of record high and low milk receipt changes has left the industry searching for mechanisms to help stabilize producer finances. The volatility dairy producers have experienced in the last few years often made what appeared to be good financial decisions turn into tough financial results when the markets for feed and milk products moved so quickly.

This led to the policy development process undertaken by the National Milk Producers Federation that resulted in the original concept of *Foundation for the Future.* Many of these original concepts were first introduced in Congress by House Agriculture Committee Ranking Member Collin Peterson, D-Minnesota, and Representative Mike Simpson, R-Idaho, as the Dairy Security Act of 2011 (DSA2011).

The major features of the DSA2011 program as modified in this analysis that must be discussed to interpret how the program will operate are the base program and the supplemental program under the Dairy Producer Margin Protection Program and the Dairy Market Stabilization Program. It remains important to highlight the MDSA2011 program is a voluntary program and that producers can choose whether to participate in the program. A dairy producer who chooses margin protection under DPMPP is subject to the provisions of DMSP and is eligible for payments under the base and/or supplemental programs. The particular assumptions used for my analysis of the program are contained in the full report that is attached to my testimony.

Every component of the proposed dairy program hinges on the margin defined by the program. It is important to understand the construction of the MDSA2011 margin and how it has moved historically. The margin calculation used here is the same as the margin in the recently released Senate Agriculture Committee farm bill language. One way to look at the construction of the margin is to compare the milk price used in the margin calculation relative to the feed components of corn, soybean meal and alfalfa. The relative movements in these two parts of the margin calculation are critical. The tendency for these components to move together can be seen in the current graph. The correlation between the milk price and feed cost is 0.64 over the 1980 to 2011 period. The measure of the correlation between these data series is sensitive to the time period chosen. Eliminating 2011 from the calculation reduces the correlation to near 0.50. Higher correlation reduces government outlays and operation of the program features.

The next figure shows the historical MDSA2011 margin using actual observations of the milk and feed price components. It is important to understand that these margin outcomes would have changed had the MDSA2011 program been in operation. The figure highlights the abrupt change that occurred in the margin from late 2007 to mid-2009. Over the 1980 to 2011 period, the MDSA2011 margin averaged $8.30 per hundredweight and over the 2000 to 2011 period it averaged $8.60 per hundredweight.

Analysis of the MDSA2011 program depends on the level of participation in the program. To move beyond a simple assumption on producer participation in the program or a range of participation levels, the representative farm model maintained at Texas A&M University by the Agricultural and Food Policy Center (AFPC) was used to determine which of the AFPC dairy farms would participate and at what level of supplemental coverage to maximize their net cash income. Their report is attached to my testimony. Given the results from the representative farms model, the aggregate model was calibrated to assume that 70 percent of the milk produced in the country would be from operations participating in the MDSA2011 program and that participating milk would purchase supplemental coverage at $6.50 at a 90 percent supplemental program base coverage level.

My analysis of the MDSA2011 scenario hinges on a forward-looking baseline that allows for a point of comparison for this analysis. This baseline is very similar to the long-term baselines constructed by USDA and the Congressional Budget Office. On average the MDSA2011 baseline margin averages $9.50 per hundredweight. The baseline uses a stochastic approach so that the effects of the policy proposal can be evaluated over different market conditions.

The MDSA2001 results show that milk supplies are on average only 0.1 percent below baseline levels under the MDSA2011 scenario. My report shows only a very modest impact on milk output from operation of the MDSA2011 program.

Dairy product export levels are also down slightly under the scenario. The next graph shows that nonfat dry milk exports have an average decline of 4 million pounds, which is a decline of 0.3 percent under the MDSA2011 scenario. There has been much industry discussion on the effects of DMSP on U.S. dairy exports. Two factors drive the small impacts shown here. First, the stochastic output from the analysis shows DMSP operation does not occur often. In only about 7.5 percent of the months across all 500 stochastic alternatives is the program operational. Second, when the DMSP operates, it lasts a very short period of time because of the world price triggers built into the MDSA2011 language. None of the 500 outcomes show long-term multi-year operation of DMSP. The largest single-year decline in nonfat dry milk exports is about 25 million pounds in any of the 500 outcomes. This decline is in comparison to 1.3 billion pounds of nonfat dry milk exports occurring under the baseline and is a less than two percent decline.

The next figure provides an indication of the probability of a base program and $6.50 supplemental program payment in the first year and midway through the analysis period. There is an 18 percent chance of a base program payment being made in 2012 and that probability decreases to a seven percent chance of a base program payment in 2017. The probability of receiving a $6.50 supplemental program payment in 2012 is 61 percent and declines to 30 percent in 2017. The higher probabilities associated with the supplemental program highlights the important choices producers will make each year regarding supplemental coverage. This is likely the most important feature that allows producers to reduce their risk of experiencing low margins.

Another way to measure the reduction in volatility from operation of the MDSA2011 program is to look at the variance in the baseline margin *versus* the margin under MDSA2011. This figure shows that the program results in about a $0.75 reduction in margin variance under the program's operation. It is primarily the lift in low margin outcomes provided by the MDSA2011 program that results in the reduction in margin variance shown in the figure.

In summary, the analysis of the MDSA2011 program shows that:

(1) The combination of program features, DMSP and DPMPP, reduces margin volatility in the dairy industry;

(2) There are only small milk supply effects on average;

(3) Producer margins increase on average with the most lift in producer margins occurring in low margin environment outcomes;

(4) Dairy product trade is only slightly lower on average as a result of the DMSP triggers for U.S. to world dairy product price differences;

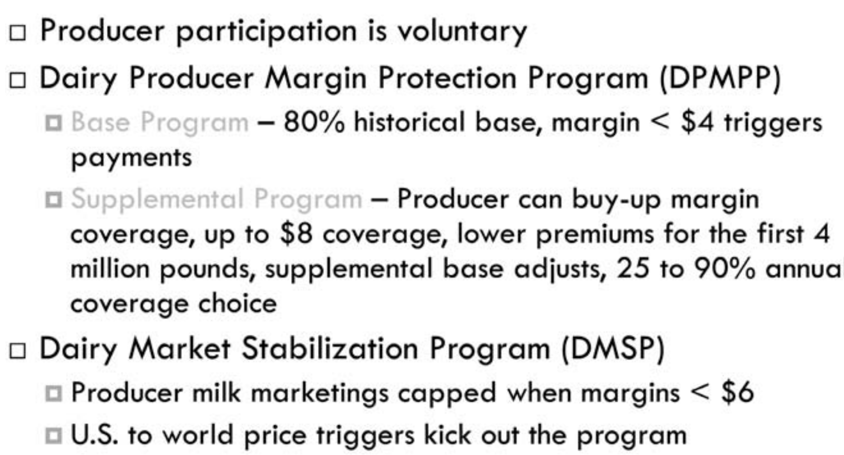
(5) Milk and dairy product prices have small increases as a result of smaller milk supplies; and

(6) There are not long periods of program operation for either DPMPP or DMSP.

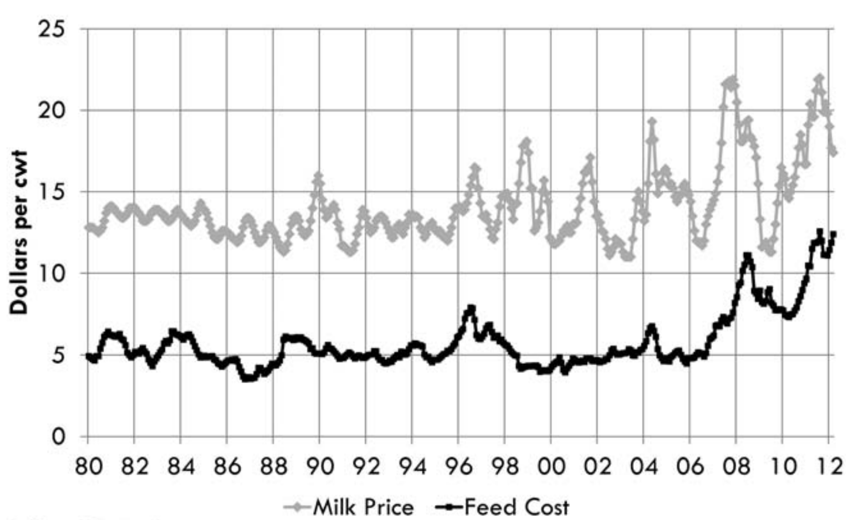
Thank you for the opportunity to discuss the quantitative effects of the MDSA2011 program. I look forward to providing further clarification on my analysis and answer any questions you have about the MDSA2011 program.

CHARTS

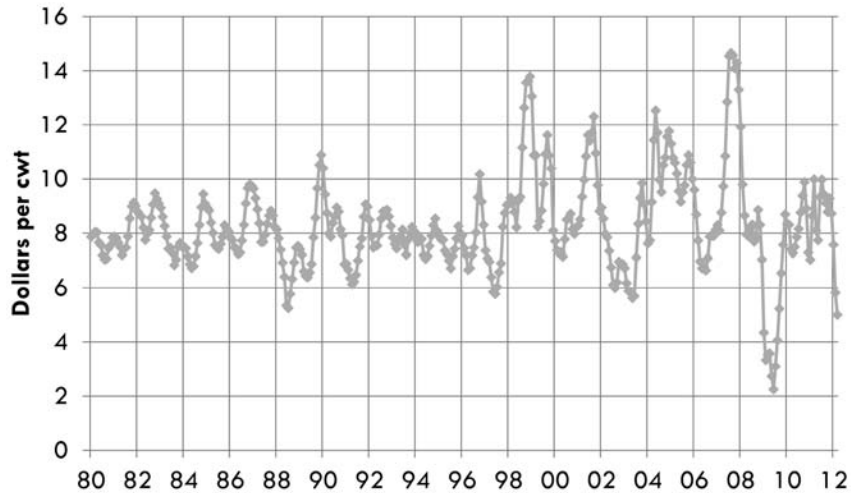
Modified Dairy Security Act Provisions



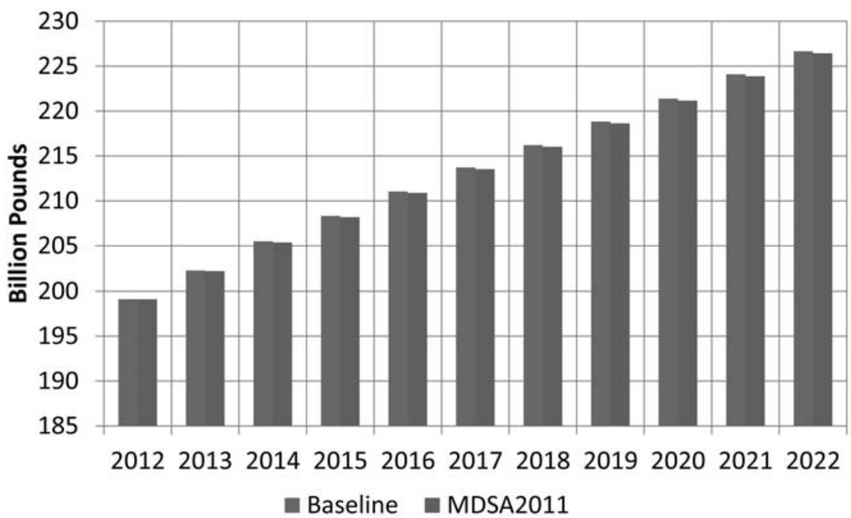
The Correlation Between Feed and Milk Prices is Important



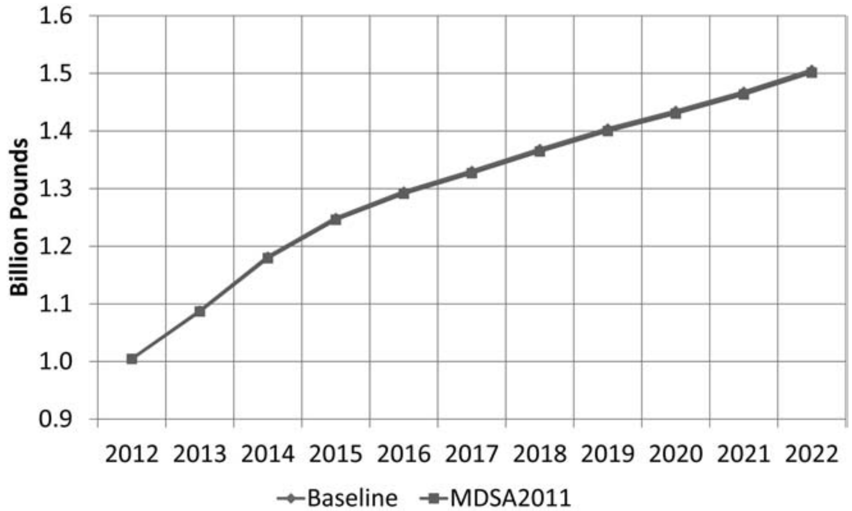
Modified DSA2011 Margin



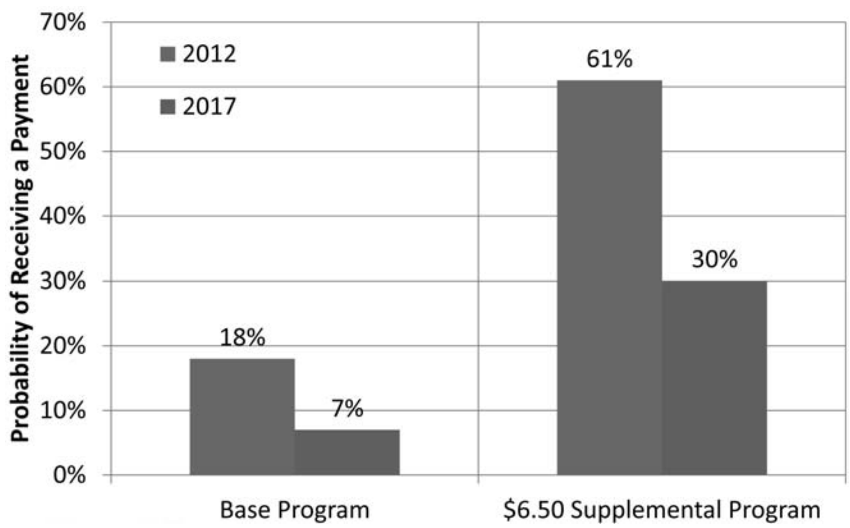
U.S. Milk Production



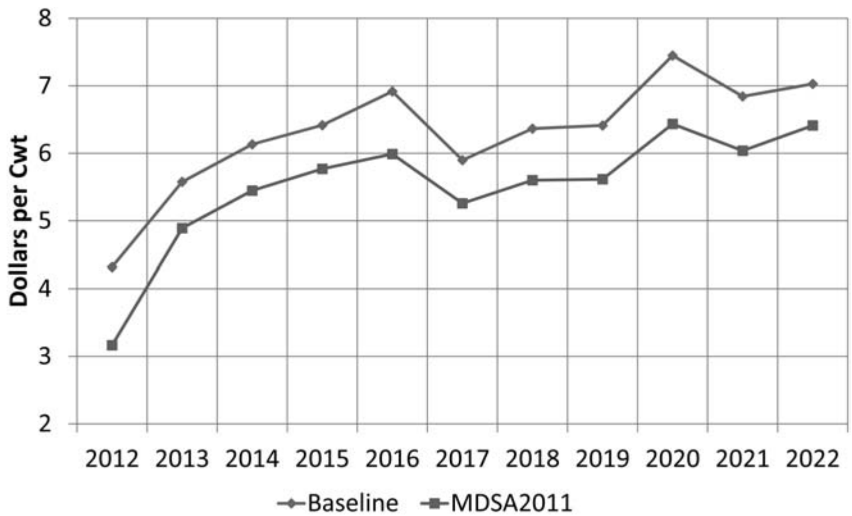
U.S. Nonfat Dry Milk Exports



Probability of DPMPP Payments



Margin Variance Declines Under MDSA2011, Program Lifts Low Margins



ATTACHMENT 1

The Effects of a Modified Dairy Security Act of 2011 on Dairy Markets

April 2012

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Introduction

The concept of protecting dairy producer margins gained substantial interest due to the combination of extremely high feed costs and low milk prices the industry experienced in 2009. The annual decline in 2009 U.S. milk receipts of $10.5 billion set a record for data going back to the early 1920s. Even in percentage terms, the 43 percent reduction in 2009 milk receipts had never been experienced by the dairy industry before. The 2009 record event is just another cyclical low that the industry has experienced on a more regular basis over the last decade. This recent cycle of record high and low milk receipt changes has left the industry searching for mechanisms to help stabilize producer finances.

At the same time that milk receipts made record movements, feed costs skyrocketed. The season average price of corn in 2005 was $2.00 per bushel. The current USDA estimate for the 2011 corn price is $6.20 per bushel, a threefold increase. Over the same timeframe, soybean meal and alfalfa prices have doubled. Weather, strong domestic demand for crops including the demand by the biofuels sector and strong international demand for U.S.-produced crops have all provided the recipe for the record-feed costs the dairy industry faces today.

The combination of low milk prices and high feed costs has taken a large bite out of dairy producer equity and substantially lowered dairy producers' balance sheets in the past few years. It will take years to recoup this lost equity. The increase in equity many dairy producers experienced in 2007 helped blunt the severe events of 2009 but by no means provided an offset for the 2009 downturn.

The volatility dairy producers have experienced in the last few years often made what appeared to be good financial decisions turn into tough financial results when the markets for feed and milk products moved so quickly. This has led to discussion and evolution of dairy policy alternatives that provide dairy producers with margin protection.

The National Milk Producers Federation (NMPF) went through a policy discussion process that resulted in the release of the Foundation for the Future (FFTF) program in late 2010. FFTF reframes the current set of Federal dairy support policies into two major new policy pieces. The Dairy Producer Margin Protection Program (DPMPP) provides payments to dairy producers when the defined margin of milk price less feed costs falls below a specified level. The Dairy Market Stabilization Program (DMSP) is a program that manages milk supplies when dairy producer margins fall below a specified level.

The DPMPP provides a firmer floor than current dairy programs for producers in periods of low margins and allows some flexibility in the level of protection by allowing producers to buy higher margin coverage levels for additional premiums paid. The DMSP works in conjunction with the DPMPP through a managed supply approach and allows a low margin environment to be corrected more quickly than would otherwise occur, resulting in higher milk prices for producers and reducing government outlays for the DPMPP.

Legislation was introduced in the House of Representatives by House Agriculture Committee Ranking Member Collin Peterson, D-Minnesota, and Representative Mike Simpson, R-Idaho, in mid-2011 that incorporated many of the components found in the FFTF program. The Dairy Security Act of 2011 (DSA2011) has received much discussion regarding its potential effects on dairy markets.

Further developments to the original DSA2011 language have occurred as House and Senate Agriculture Committees work on the next farm bill. This paper examines a set of modifications to the original DSA2011 language that incorporate changes that have been discussed by House and Senate Agriculture Committees as they draft new farm bill language. This analysis will refer to a modified DSA2011 (MDSA2011) proposal as it incorporates the changes discussed by Agriculture Committees. Many of the modifications in this analysis are similar to those found in the recently released Senate Farm Bill Committee Print.

Margin Calculation Is Critical To Program Operation

Every component of the proposed dairy program hinges on the margin defined by the program. It is important to understand the construction of the MDSA2011 margin and how it has moved historically. The original margin was developed through NMPF's FFTF policy process and is meant to reflect both the revenue and feed cost of milk production. The MDSA2011 margin is defined as:

Margin = U.S. all milk price (USDA/NASS)
$-1.0728 \times$ U.S. corn price (USDA/NASS)
$-0.00735 \times$ soybean meal price (USDA/AMS, Central IL)
$-0.0137 \times$ U.S. alfalfa price (USDA/NASS).

The margin is calculated on a monthly basis with program triggers based on combinations of these monthly margins.

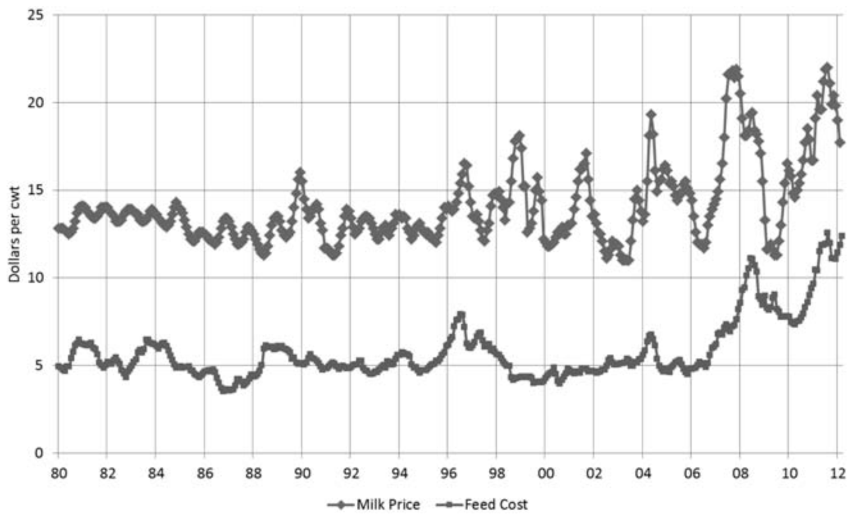
One way to look at the construction of the margin is to compare the milk price used in the margin calculation relative to the feed components of corn, soybean meal and alfalfa. *Figure 1* provides a comparison of feed costs to the milk price for the last 3 decades. There are many important points to focus on in this graph.

First, both milk prices and feed costs have increased in volatility in the past several years. The volatility in milk prices began to occur in the mid-1990s with feed costs showing much of their rise in just the past 6 years.

Second, the relative movements in these two parts of the margin calculation are critical. The tendency for these components to move together can be seen in *figure 1,* which reduces volatility in the margin itself. When both milk prices and feed costs are either low or high at the same time there is less movement in the margin than if the margin was only based on milk prices or feed costs.

Correlation measures provide a way to quantitatively assess the extent to which variables move together without requiring a linear relationship in the variables. Correlation coefficients vary from positive one (a perfect relationship between the variables) to negative one (a completely inverse relationship). A zero correlation implies no relationship between the variables.

Figure 1. Components of the MDSA2011 Margin



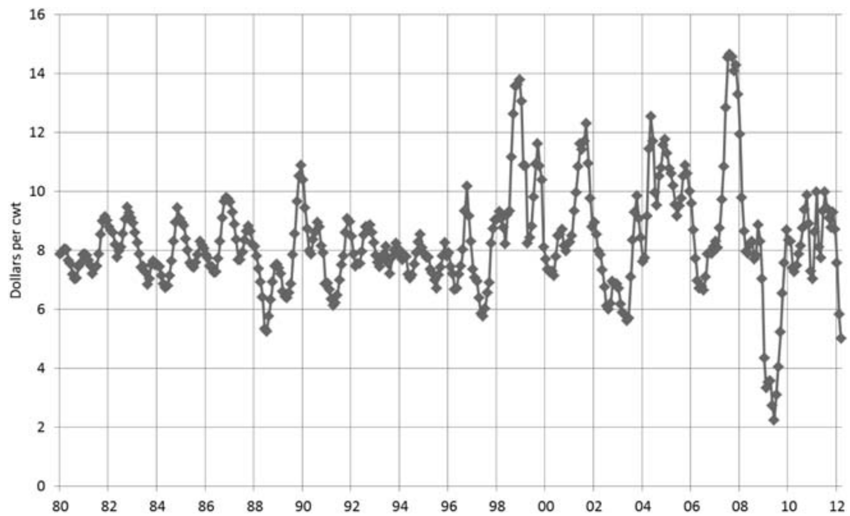
In the case of *figure 1,* the correlation between the milk price and feed cost is 0.64 over the 1980 to 2011 period. The measure of the correlation between these data series is sensitive to the time period chosen. Eliminating 2011 from the calculation reduces the correlation to near 0.50. Regardless of the chosen timeframe, the correlation remains near 0.50 or higher. This level of correlation corresponds to the portion of the cost in producing 100 pounds of milk that is attributed to feed costs. The stochastic analysis used in this report has a correlation of about 0.45 between milk prices and feed costs.

It is important to reiterate that this level of correlation does not imply a perfect direct relationship between feed costs and milk prices. That is, there are times where movements in one of the variables are not mimicked by the movement in the other. However, the measure of correlation suggests that often these series do tend to move together.

Knowledge of the correlation between the two profitability components is imperative as background information for industry discussion regarding the effects of MDSA2011. If the correlation between the two components of the margin calculation is ignored, the effects of the program will be overstated. This margin discussion is not meant to suggest that the industry cannot experience very low or very high margins, but that the probability of these events occurring are reduced when the correlation between milk price and feed costs are factored into analysis of the program.

Figure 2 shows the historical MDSA2011 margin using actual observations of the milk and feed price components. It is important to understand that these margin outcomes would have changed had the MDSA2011 program been in operation. *Figure 2* highlights the abrupt change that occurred in the margin from late 2007 to mid-2009. Over the 1980 to 2011 period, the MDSA2011 margin averaged $8.30 per hundredweight and over the 2000 to 2011 period it averaged $8.60 per hundredweight.

Figure 2. MDSA2011 Historical Margin



Analysis of the MDSA2011 Provisions

This report provides analysis of a MDSA2011 program that was constructed based on discussion with Agriculture Committees. This portion of the report will focus on the baseline used to measure the quantitative effects of the MDSA2011 program, assumptions about the modified program features of MDSA2011 and the empirical results found from enacting the MDSA2011 program.

The Baseline

The baseline used in this analysis is a 10 year forward-looking baseline that is conditioned on factors such as feed costs, other dairy input costs, real U.S. income growth and global dairy markets. The baseline was constructed in January 2012 and does not incorporate market information available since the first of the year. The policy assumptions used in the baseline are a continuation of current dairy programs and include the reduced MILC program parameters that begin in September, 2012.

Table 1. Stochastic Dairy Baseline

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dairy Cows (thou.)	9,240	9,237	9,259	9,276	9,287	9,298	9,306	9,315	9,329	9,344	9,361
Milk Yield (pounds)	21,550	21,903	22,194	22,459	22,724	22,986	23,234	23,491	23,730	23,983	24,214
(Million pounds)											
Milk Production	199,125	202,316	205,492	208,329	211,050	213,719	216,215	218,832	221,380	224,089	226,659
Dairy Product Production											
Cheese	10,779	11,034	11,263	11,474	11,687	11,889	12,088	12,293	12,494	12,710	12,917
Butter	1,891	1,932	1,966	1,987	2,006	2,026	2,043	2,062	2,079	2,096	2,116
Nonfat Dry Milk	1,868	1,963	2,076	2,169	2,240	2,311	2,372	2,436	2,502	2,566	2,638
Dairy Exports											
Cheese	340	360	379	392	404	414	425	434	444	454	475
Butter	108	116	123	123	119	121	120	120	119	121	121
Nonfat Dry Milk	1,005	1,088	1,182	1,249	1,295	1,331	1,369	1,404	1,435	1,468	1,506
Milk Prices	(Dollars per cwt)										
U.S. All Milk	18.91	19.10	18.97	18.92	19.07	19.07	19.19	19.24	19.32	19.32	19.57
Class III	17.26	17.42	17.13	17.00	17.12	17.14	17.29	17.37	17.43	17.52	17.73
Class IV	16.89	17.08	17.15	17.23	17.36	17.42	17.48	17.50	17.53	17.46	17.74
MDSA2011 Margin	7.88	9.48	9.78	9.71	9.70	9.62	9.64	9.64	9.81	9.88	10.22
Wholesale Dairy Product Prices	(Cents per pound)										
Cheese	165.9	169.5	168.5	168.9	170.0	170.3	171.8	172.6	173.2	174.3	176.2
Butter	171.4	163.2	158.3	159.5	159.7	161.0	162.2	163.0	164.5	163.0	167.1
Nonfat Dry Milk	142.4	148.7	151.9	152.2	153.6	153.6	153.7	153.6	153.2	153.1	154.4

These numbers represent the averages of the 500 outcomes.

This baseline uses a stochastic approach in determining the forward-looking path for the dairy variables shown in *table 1*. The stochastic approach draws 500 alternatives for the conditioning variables in determining the dairy baseline. The draws incorporate historical distributions of the conditioning factors to make certain any historical correlation in these conditioning factors is included. The averages presented in *table 1* show a much smoother path than the dairy industry has experienced the last several years. However, any of the 500 individual outcomes that determine the average shown in the table will show volatility similar to what the industry has recently experienced.

The baseline outlook for the dairy industry shows that milk prices rise on average over the period. With growing international demand for U.S. dairy products in the baseline, exports of U.S. dairy products grow. Feed costs remain above long-term historical averages. The baseline shown here is similar to the recent long term forecasts released by USDA and the Congressional Budget Office.

To highlight that this stochastic baseline has a wide range of dairy outcomes, *table 2* shows the distribution of U.S. all milk prices in the baseline. For example, *table 2* shows that in 2012 there is a five percent chance the all milk price will be below $15.60 or above $22.35 per cwt. Further, the table shows that there is a ten percent chance that the all milk price falls below $16.23 or above $21.42 per cwt in 2012. The stochastic approach taken in the baseline and subsequent analysis is important in determining the effects of a policy alternative across a range of market outcomes.

Table 2. Distribution of U.S. All Milk Prices

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(Dollars per cwt)						
Stochastic Average	18.91	19.10	18.97	18.92	19.07	19.07	19.19	19.24	19.32	19.32	19.57
Percentiles											
5%	15.60	15.80	15.83	15.53	15.73	15.86	15.77	15.62	15.72	15.80	15.95
10%	16.23	16.39	16.45	16.30	16.34	16.54	16.46	16.50	16.36	16.39	16.72
20%	17.25	17.31	17.20	17.05	17.15	17.36	17.29	17.40	17.29	17.38	17.65
30%	17.81	17.93	17.83	17.66	17.82	18.01	17.90	18.04	18.08	18.26	18.30
40%	18.34	18.48	18.28	18.22	18.54	18.37	18.51	18.67	18.56	18.76	18.95
50%	18.86	18.97	18.82	18.76	18.94	18.93	19.09	19.16	19.15	19.30	19.53
60%	19.38	19.57	19.43	19.20	19.54	19.45	19.65	19.72	19.75	19.79	20.06
70%	19.97	20.17	19.91	20.00	20.17	20.08	20.33	20.29	20.37	20.41	20.57
80%	20.55	20.77	20.70	20.76	20.95	20.86	21.13	20.96	21.16	21.10	21.32
90%	21.42	21.78	21.65	21.86	21.93	21.80	22.10	21.94	22.32	22.10	22.43
95%	22.35	22.55	22.52	22.81	22.72	22.58	23.10	22.86	23.68	23.02	23.50

MDSA2011 Assumptions

There are three main features of the MDSA2011 program that must be discussed to interpret how the program will operate: the Base Program, the Supplemental Program and the Dairy Market Stabilization Program. It remains important to highlight the MDSA2011 program is a voluntary program and that producers can choose whether to participate in the program.

A dairy producer who chooses margin protection under DPMPP is subject to the provisions of DMSP and is eligible for payments under the base and/or supplemental programs. Program participation also carries an annual administrative fee that depends on the quantity of milk marketed by the operation.

The base program provides a payment to a dairy producer based on the calculated margin for a 2 month period as stipulated in the legislative language. Any time this margin calculation falls below $4 per cwt, the producer receives a payment equal to the difference between the reported margin and $4, up to a payment rate cap of $4. The payment rate cap does not allow a larger payment if the calculated margin falls below zero. The payment rate is applied to a producer's base program quantity which is calculated as 80 percent of their historical base (historical base defined as the largest of the previous 3 year's milk marketings). The base for base program payments does not grow over time. There are options for new producers to obtain base for base program purposes in the language.

The supplemental program provides dairy producers the opportunity to buy-up to higher levels of margin coverage in return for the dairy producer paying a premium for that additional coverage. A dairy producer has the option each year to participate in the supplemental program. That is, they can opt in and out of the supplemental program on an annual basis. A dairy producer can also choose the level of their supplemental program base they wish to cover in the range of 25 to 90 percent.

A difference in the supplemental base quantity from the base program base quantity is that it will adjust based on a dairy producer's annual production from the previous year. This will have the effect of allowing dairy producers who are growing to obtain additional supplemental coverage on their growing milk supplies. The premium required to be paid by producers for supplemental program coverage depends on their level of milk production and is show in *table 3.* There are lower premiums available for a producer's first 4 million pounds of milk marketings.

Table 3. Supplemental Premium Levels Based on Milk Marketings

Coverage Level	Supplemental Premium Rate	
	First 4 million lbs	Above 4 million lbs
$4.50	$0.010	$0.015
$5.00	$0.025	$0.036
$5.50	$0.040	$0.081
$6.00	$0.065	$0.155
$6.50	$0.100	$0.230
$7.00	$0.434	$0.434
$7.50	$0.590	$0.590
$8.00	$0.922	$0.922

The DMSP is the remaining important feature of the MDSA2011 provisions. If the margin is less than $6 for 2 consecutive months or less than $4 for 1 month, the DMSP will then operate a month after notification by USDA to dairy producers. A producer must annually choose whether to have his/her DMSP production base calculated as the average of the previous 3 months of milk marketings prior to notification of DMSP operation or milk marketings from the same month in the previous year. Individual growth plans will affect that choice as will the producer's seasonal production pattern.

The program has three levels of market stabilization targets that producers will face when the program operates. If the margin is between $5 and $6, a producer will be paid on 98 percent of his/her DMSP base, with the maximum payment cut capped at six percent of total marketings. A margin between $4 and $5 results in only 97 percent of his/her DMSP base receiving payments with a maximum cut of seven percent of total marketings, while a margin below $4 results in only 96 percent of the DMSP base receiving payments with a maximum cut equal to eight percent of total marketings.

A producer can choose to deliver milk above his/her allowed level (percentage of DMSP base) but the producer will not be paid for any milk delivered above the allowed level. Handlers will remit the monies collected on milk delivered above allowed levels to USDA to fund dairy commodity donations.

The DMSP operation ceases when the margin is above $6 for 2 consecutive months, or when the margin is between $5 and $6 for 2 consecutive months and either the U.S. cheddar or skim milk powder price exceeds the world equivalent price, or the margin is between $4 and $5 for 2 consecutive months and the U.S. cheddar or skim milk powder price exceeds the world equivalent price by more than five percent, or if the margin is below $4 and either the U.S. cheddar or skim milk powder price exceeds world prices by more than seven percent for 2 consecutive months.

Producer Participation in the MDSA2011 Program

The development of this dairy safety net alternative has raised many questions about how producers choose to participate in the program. Important tradeoffs exist between potential DMSP operation, which could reduce the quantity of milk producers receive payments for, and the margin protection offered by the DPMPP. Under DPMPP, producers face the additional choice of whether to add supplemental margin coverage to their program. These choices provide producers a lot of flexibility in how they choose to participate in the MDSA2011 program. The range of choices goes from no program participation to full supplemental coverage on top of the base program option. Figuring out program participation under this flexible scheme can prove challenging. Most of the analysis done to date has made educated assumptions about producer participation given the economic incentives that are available. This can lead to generalizations that sometimes do not hold well when the program is actually implemented.

To move beyond a simple assumption on producer participation in the program or a range of participation levels, the representative farm model maintained at Texas A&M University by the Agricultural and Food Policy Center (AFPC) was used to determine which of the AFPC dairy farms would participate and at what level of supplemental coverage to maximize their net cash income. This approach may allow for a better estimate of program participation in the MDSA2011 program.

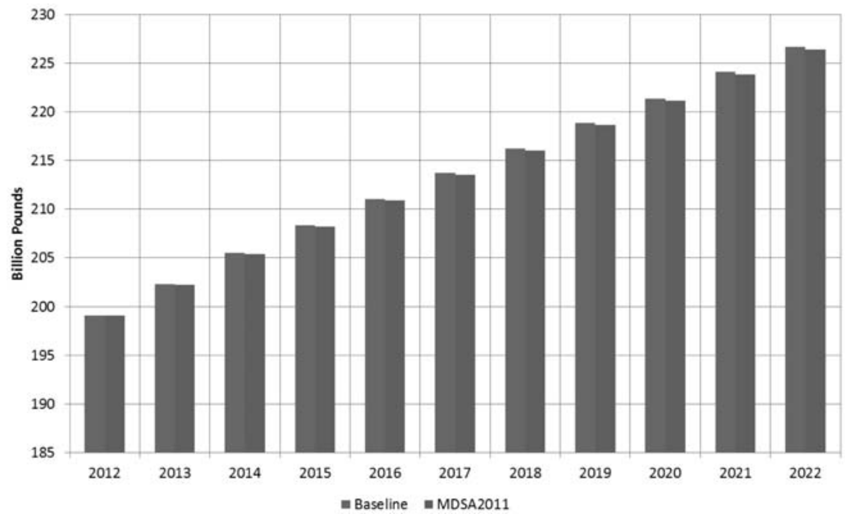
The structural aggregate model was simulated with the representative farms model until program participation was in agreement between the farm-level and aggregate level structures. Given the results (see the April 2012 Texas A&M study, *http://www.afpc.tamu.edu*) from the representative farms model, the aggregate model was calibrated to assume that 70 percent of the milk produced in the country would be from operations participating in the MDSA2011 program and that participating milk would purchase supplemental coverage at $6.50 at a 90 percent supplemental program base coverage level.

The participation outcome will affect how the MDSA2011 program will operate, but from the representative farms model and contact with the dairy producers that constructed these AFPC panel farms, it appears participation will be an attractive economic choice for many producers. These results mimic closely the participation levels found by CBO in their analysis of DSA2011 proposals.

Aggregate Results from the MDSA2011 Program

The analysis of the MDSA2011 language assumes the program to be in effect over the 2012 to 2022 period. *Appendix tables A.1* and *A.2* at the end of this report provide the average effects of operation of the MDSA2011 program on dairy markets. There are several interesting model outcomes from the analysis of the program. In general, these appendix tables show very small changes in average outcomes of all variables. *Figure 3* shows that milk supplies are on average only 0.1 percent below baseline levels under the MDSA2011 scenario.

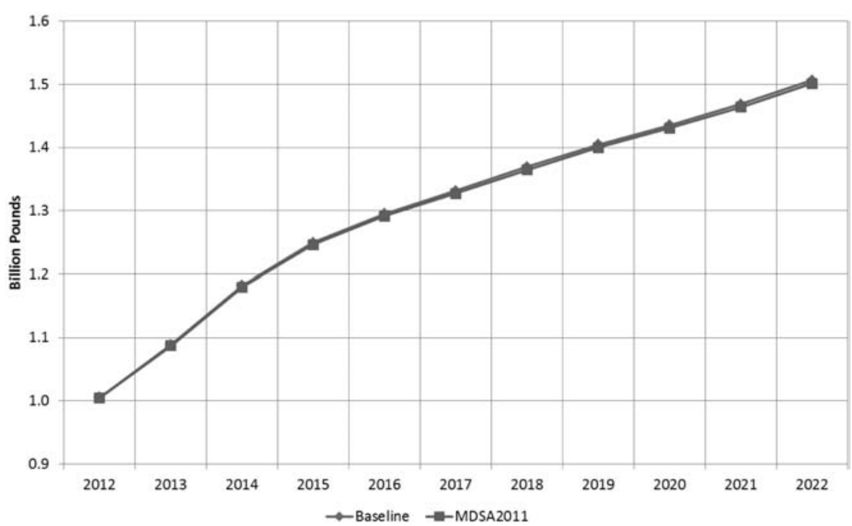
Figure 3. U.S. Milk Production



As a result of the small changes in milk supplies, dairy product output is little changed under the scenario as well. All three major dairy products have declines of 0.2 percent or less throughout the analysis.

Dairy product export levels are also down slightly under the scenario. *Figure 4* shows that nonfat dry milk exports have an average decline of 4 million pounds, which is a decline of 0.3 percent under the MDSA2011 scenario. There has been much information presented on the effects of DMSP on U.S. dairy exports. Two factors drive the small impacts shown here. First, the stochastic output from the analysis shows DMSP operation occurs only about 7.5 percent of the time. Second, when the DMSP operates, it lasts a very short period of time because of the world price triggers built into the MDSA2011 language. None of the 500 outcomes show long-term multi-year operation of DMSP. The largest single-year decline in nonfat dry milk exports is about 25 million pounds in any of the 500 outcomes.

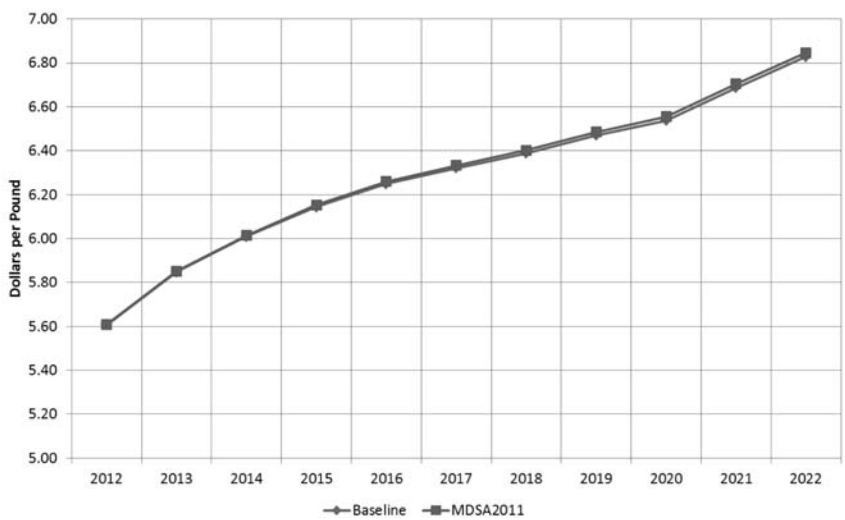
Figure 4. U.S. Nonfat Dry Milk Exports



Milk and dairy prices shown in APPENDIX *table 2* are slightly above baseline levels in the MDSA2011 scenario from the reduced milk supplies found in the analysis. U.S. all milk prices are $0.05 per cwt higher on average over the analysis period. All other milk and dairy product prices show similar movements as seen in the U.S. all milk price. *Figure 5* shows that retail cheese prices are little changed on average under the MDSA2011 scenario.

There has been interest in the effects on milk prices when the margin protection program is making payments. This analysis shows that the combination of DMSP and DPMPP work together

Figure 5. U.S. Retail Cheese Prices



in a way that reduces the downward pressure on milk prices during times of payments under DPMPP. In fact, the largest single-year decline in the U.S. all milk price relative to the baseline over the 500 outcomes was only $0.23 in this analysis. This decline in the all milk price is associated with a period where margin payments occurred.

Figure 6 provides an indication of the probability of a base program and $6.50 supplemental program payment in the first year and midway through the analysis period. According to *figure 6* there is an 18 percent chance of a base program payment being made in 2012 and that probability decreases to a seven percent chance of a base program payment in 2017. *Figure 6* shows that the probability of receiving a $6.50 supplemental program payment in 2012 is 61 percent and declines to 30 percent in 2017.

Although base program coverage comes with only an administrative cost to producers, the probability of receiving a large payment from the base program is small. Buying additional coverage increases the probability of receiving a payment from the supplemental program. Again, this analysis assumes that 70 percent of milk has supplemental coverage at the 90 percent supplemental base coverage level. The cost of this coverage, *i.e.,* the premium, is $0.23 per cwt for producer marketings above 4 million pounds. In 2012, the average supplemental program payout is $0.41 per cwt while in 2017 it is $0.15 per cwt.

Figure 7 provides a summary of how the MDSA2011 affects margins. This graph represents U.S. average effects and the graph does depend on program participation. This is an aggregate outcome

Figure 6. Probability of Receiving a Payment from DPMPP, 2012 and 2017

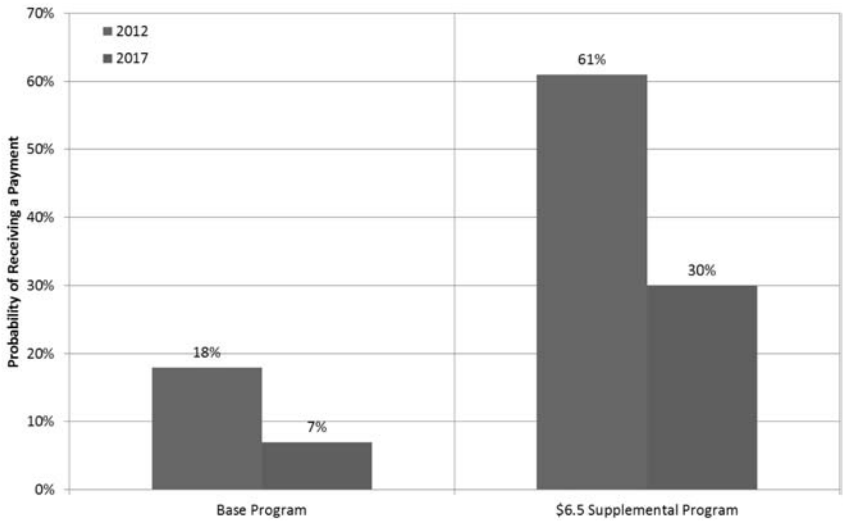
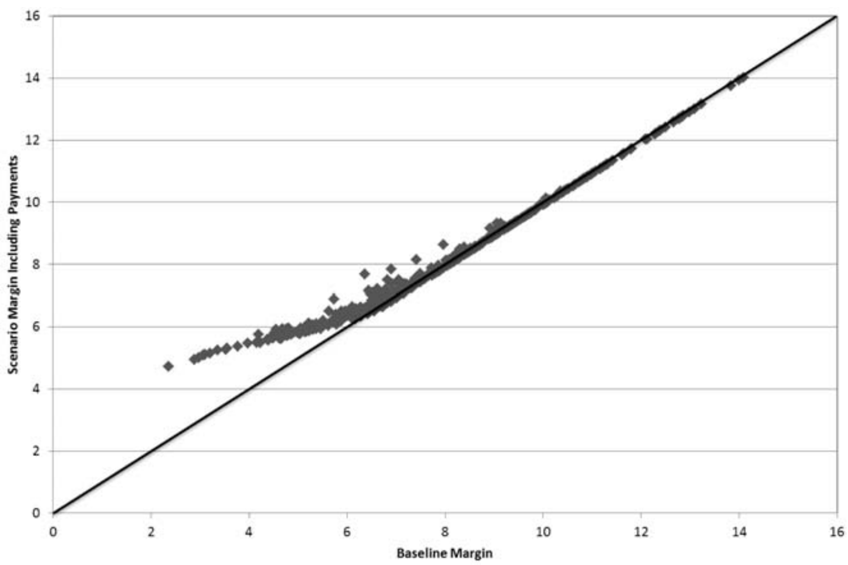


Figure 7. Average U.S. 2012 Margin Level, Baseline *versus* the MDSA2011Program

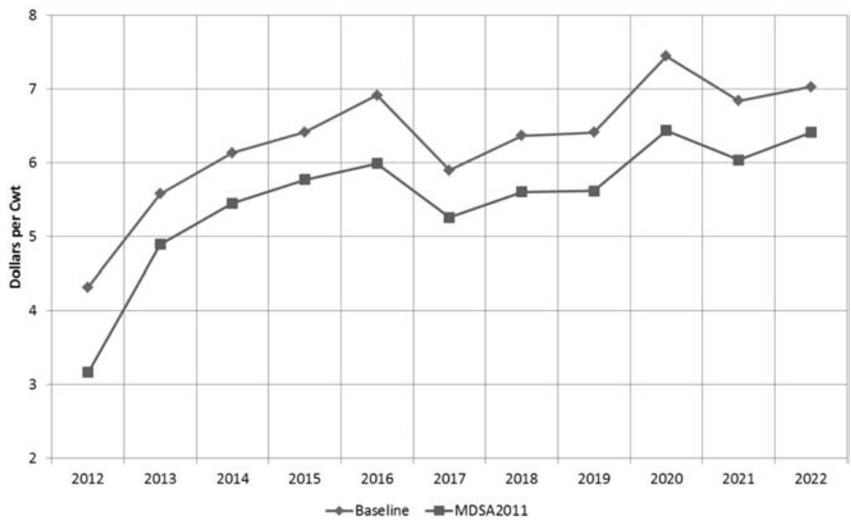


and individual producer outcomes will depend on their program participation choice. The baseline margin outcomes are found on the horizontal axis while the MDSA2011 margin outcomes are plotted on the vertical axis. The DSA2011 margin outcomes include market, premiums and program payments. When an outcome falls to the left of the 45° line shown on the graph, the MDSA2011program has raised that margin outcome relative to the baseline. When the outcome falls to the right of the 45° line, the baseline outcome exceeds the scenario margin outcome.

The graph shows that in low margin outcomes, the combination of DMSP and DPMPP raises the margin outcome relative to the baseline. The lowest outcome on the graph shows the MDSA2011 program raised the margin by nearly $3 per cwt. On the upper end of baseline margins, producers are paying premiums for the supplemental coverage and do not see DPMPP payments so the margin under the MDSA2011 program is below the baseline margin outcomes by the cost of the premium they pay. From a margin perspective, the MDSA2011 increases low margin outcomes through payments and market stabilization. Supplemental program premiums paid in high margin periods provides slightly lower margin outcomes. The combination implies less volatility in margins than occurs with a continuation of current programs.

Another way to measure the reduction in volatility from operation of the MDSA2011 program is to look at the variance in the baseline margin *versus* the margin under MDSA2011. *Figure 8* shows that the program results in about a $0.75 reduction in margin variance under the program's operation. This figure shows the lift in low margin outcomes provided by the MDSA2011 program results in the reduction in variance.

Figure 8. Producer Margin Variance



Summary

In summary, the analysis of the MDSA2011 program shows that:

(1) The combination of program features, DMSP and DPMPP, reduces margin volatility in the dairy industry;

(2) There are only small milk supply effects on average;

(3) Producer margins increase on average with the most lift in producer margins occurring in low margin environment outcomes;

(4) Dairy product trade is only slightly lower on average as a result of the DMSP triggers for U.S. to world dairy product price differences;

(5) Milk and dairy product prices have small increases as a result of smaller milk supplies; and

(6) There are not long periods of program operation for either DPMPP or DMSP.

The analysis shown here provides a robust look at how the program operates across both low and high market price environments. This approach is important to gain a full understanding of how the program interacts with various market outcomes. Any time a program is keyed off of a margin that includes input and output prices, the analysis needs to carefully incorporate the correlation that occurs between these different prices. If the analysis incorporates correlation that is too high, it will understate the level of program operation while if the analysis incorporates correlation that is too low, it will overstate the level of program operation. Although this analysis takes a stochastic approach to provide a more robust outcome, if the average outcomes are too high or too low it will cause the analysis to understate/overstate the program effects.

APPENDIX

Table A1. Effect of the MDSA2011 on Dairy Markets

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dairy Cows	(Thousand Head)										
Baseline	9,240	9,237	9,259	9,276	9,287	9,298	9,306	9,315	9,329	9,344	9,361
MDSA2011	9,240	9,236	9,256	9,272	9,283	9,292	9,300	9,308	9,322	9,336	9,353
Change	(0)	(1)	(3)	(4)	(5)	(6)	(6)	(7)	(7)	(8)	(8)
Percent Change	0.0%	0.0%	0.0%	0.0%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%
Milk Production	(Million Pounds)										
Baseline	199,125	202,316	205,492	208,329	211,050	213,719	216,215	218,832	221,380	224,089	226,659
MDSA2011	199,113	202,249	205,376	208,189	210,889	213,538	216,026	218,634	221,170	223,876	226,436
Change	(12)	(67)	(117)	(140)	(162)	(181)	(189)	(198)	(210)	(213)	(223)
Percent Change	0.0%	0.0%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%
Cheese Production											
Baseline	10,779	11,034	11,263	11,474	11,687	11,889	12,088	12,293	12,494	12,710	12,917
MDSA2011	10,779	11,030	11,257	11,467	11,679	11,879	12,079	12,283	12,483	12,699	12,906
Change	(1)	(4)	(6)	(7)	(8)	(9)	(10)	(10)	(11)	(11)	(12)
Percent Change	0.0%	0.0%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%
Butter Production											
Baseline	1,891	1,932	1,966	1,987	2,006	2,026	2,043	2,062	2,079	2,096	2,116
MDSA2011	1,891	1,930	1,964	1,984	2,004	2,023	2,040	2,058	2,076	2,092	2,112
Change	(0)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(4)
Percent Change	0.0%	−0.1%	−0.1%	−0.1%	−0.1%	−0.1%	−0.2%	−0.2%	−0.2%	−0.2%	−0.2%
Nonfat Dry Milk Production											
Baseline	1,868	1,963	2,076	2,169	2,240	2,311	2,372	2,436	2,502	2,566	2,638
MDSA2011	1,868	1,962	2,073	2,165	2,236	2,307	2,367	2,431	2,496	2,561	2,632
Change	(0)	(2)	(3)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	(6)
Percent Change	0.0%	−0.1%	−0.1%	−0.2%	−0.2%	−0.2%	−0.2%	−0.2%	−0.2%	−0.2%	−0.2%
Cheese Exports											
Baseline	340	360	379	392	404	414	425	434	444	454	475
MDSA2011	339	359	378	391	402	413	423	432	443	452	473
Change	(0)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Percent Change	0.0%	−0.2%	−0.3%	−0.3%	−0.3%	−0.4%	−0.4%	−0.4%	−0.4%	−0.4%	−0.4%
Butter Exports											
Baseline	108	116	123	123	119	121	120	120	119	121	121
MDSA2011	108	116	123	122	118	119	119	119	118	120	120
Change	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Percent Change	−0.1%	−0.3%	−0.6%	−0.7%	−0.8%	−0.9%	−0.9%	−0.9%	−0.9%	−1.0%	−1.0%

Table A1. Effect of the MDSA2011 on Dairy Markets—Continued

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nonfat Dry Milk Exports											
Baseline	1,005	1,088	1,182	1,249	1,295	1,331	1,369	1,404	1,435	1,468	1,506
MDSA2011	1,005	1,087	1,179	1,246	1,291	1,327	1,365	1,400	1,430	1,463	1,501
Change	(0)	(1)	(3)	(3)	(4)	(4)	(4)	(4)	(5)	(5)	(5)
Percent Change	0.0%	−0.1%	−0.2%	−0.3%	−0.3%	−0.3%	−0.3%	−0.3%	−0.3%	−0.3%	−0.3%

Table A2. Effect of the MDSA2011 on Dairy Prices

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
U.S. All Milk Price	(Dollars per Cwt)										
Baseline	18.91	19.10	18.97	18.92	19.07	19.07	19.19	19.24	19.32	19.32	19.57
MDSA2011	18.92	19.13	19.01	18.97	19.13	19.13	19.25	19.31	19.39	19.40	19.64
Change	0.01	0.02	0.04	0.05	0.06	0.06	0.07	0.07	0.07	0.07	0.08
Percent Change	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
Class III Milk Price											
Baseline	17.26	17.42	17.13	17.00	17.12	17.14	17.29	17.37	17.43	17.52	17.73
MDSA2011	17.27	17.44	17.17	17.05	17.18	17.21	17.36	17.44	17.51	17.60	17.82
Change	0.01	0.03	0.04	0.05	0.06	0.07	0.07	0.08	0.08	0.08	0.08
Percent Change	0.0%	0.1%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%
Class IV Milk Price											
Baseline	16.89	17.08	17.15	17.23	17.36	17.42	17.48	17.50	17.53	17.46	17.74
MDSA2011	16.90	17.10	17.19	17.27	17.41	17.47	17.53	17.56	17.59	17.52	17.80
Change	0.01	0.02	0.03	0.04	0.05	0.05	0.05	0.06	0.06	0.06	0.06
Percent Change	0.0%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
Wholesale Cheese Price	(Cents per Pound)										
Baseline	165.9	169.5	168.5	168.9	170.0	170.3	171.8	172.6	173.2	174.3	176.2
MDSA2011166.0	169.7	168.9	169.4	170.6	170.9	172.5	173.3	173.9	175.1	177.0	
Change	0.1	0.2	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.8
Percent Change	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Wholesale Butter Price											
Baseline	171.4	163.2	158.3	159.5	159.7	161.0	162.2	163.0	164.5	163.0	167.1
MDSA2011	171.5	163.5	158.8	160.2	160.5	161.9	163.1	163.9	165.5	164.0	168.1
Change	0.1	0.3	0.5	0.7	0.8	0.9	0.9	0.9	1.0	1.0	1.1
Percent Change	0.1%	0.2%	0.3%	0.4%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
Wholesale Nonfat Dry Milk Price											
Baseline	142.4	148.7	151.9	152.2	153.6	153.6	153.7	153.6	153.2	153.1	154.4

MDSA2011	142.4	148.7	152.0	152.3	153.7	153.8	153.9	153.8	153.4	153.3	154.6
Change	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Percent Change	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

ATTACHMENT 2

Farm Level Impacts of Effects of a Modified Dairy Security Act of 2011

Research Report 12–1

Agricultural and Food Policy Center
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Farm Level Impacts of Effects of a Modified Dairy Security Act of 2011

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Farm Level Impacts of Effects of a Modified Dairy Security Act of 2011

Executive Summary

The report analyzed the effect of the modified Dairy Security Act of 2011 (MDSA2011) provisions that was discussed in late 2011 on individual dairy farms using data on 22 actual representative dairy farms developed and maintained by AFPC. These representative dairy farms vary significantly in size and are distributed throughout the United States.

The following are the some of the key conclusions of the study:

(1) The overwhelming majority (19 out of 22) of the representative farms would have higher net cash farm income over the study period under the MDSA2011 proposed policy relative to current policy. Eleven dairies would choose the $6.50 buy-up level and eight would choose $5.00 buy-up level as their most preferred option. The remaining three would choose non-participation as their preferred option.

(2) In general, the current policy alternative (option 1) was among the least preferred across the representative dairies.

(3) Sector level analysis from Brown indicates that MDSA2011 will result in very minor changes in milk prices and milk production, compared with current dairy policy.

(4) Although the analysis formally assumes that the milking herd sizes of the representative farms remains constant throughout the analysis period (2009–2016), it was determined that the results would not change under a more general assumption of herd size growth.

Farm Level Impacts of Effects of a Modified Dairy Security Act of 2011

This report provides the results of farm level analyses of the modified Dairy Security Act of 2011 provisions that was discussed in late 2011. This analysis is a companion to the sector level analysis of these provisions developed by Brown. The sector level results were utilized in this analysis and imposed on the representative dairy farms maintained by the Agricultural and Food Policy Center at Texas A&M University. Detailed descriptions of the sector results are contained in the report, *The Effects of a Modified Dairy Security Act of 2011 on Dairy Markets.*

AFPC Panel Process

AFPC has developed and maintains data to simulate 22 representative dairy farms in the major production areas across the United States (*Figure 1*). Characteristics for each of the operations in terms of location, size, and crop mix are summarized in *Appendix A.* More detailed information on the farms are contained in Richardson, *et al.,* 2012.

The locations of these farms are primarily the result of past discussions with staff Members of the U.S. House and Senate Agriculture Committees. Information necessary to simulate the economic activity on these representative farms is developed from panels of producers using a consensus-building interview process. Often, two farms are developed in each region using separate panels of producers: one is representative of moderate size full-time farm operations, and the second panel usually represents farms two to three times larger.

The data collected from the panel farms are analyzed using the whole farm simulation model (FLIPSIM) developed by AFPC. The producer panels are provided *pro forma* financial statements for their representative farm and are asked to verify the accuracy of simulated results for the past year and the reasonableness of a multi-

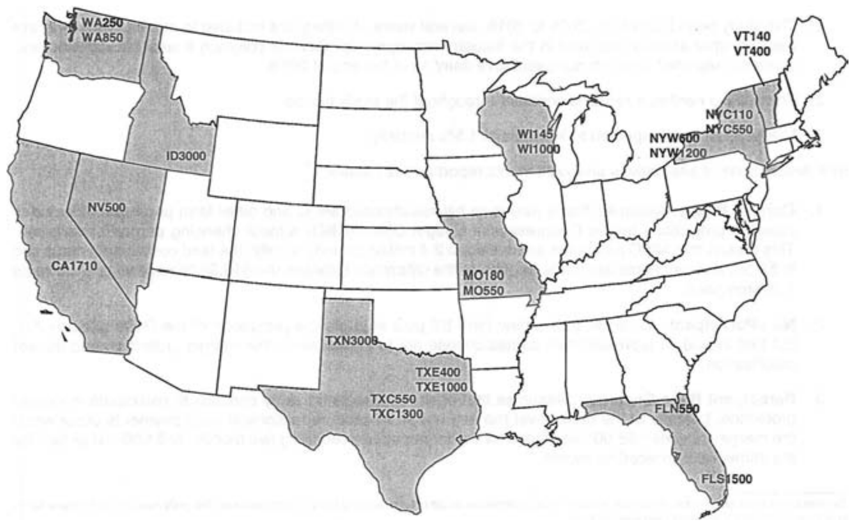

Figure 1. Location and Size of AFPC Representative Dairies

year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analyses.

Initial debt levels for dairy farms were set at 30 percent. The debt levels the farms have at the outset of 2009 are based on a stratified tabulation of the ERS–USDA Farm Cost and Returns Survey (using the survey data for moderate to large size farms in states where AFPC has representative farms) and panel member input.

Panel Member Input

AFPC often gets asked to analyze policy changes on our representative farms and the results often hinge on the assumptions made for the analysis. We often fact check our assumptions with our panel members or at least try to get a feel from them for how they might react to a policy change. The significance of the changes being analyzed in this report prompted us to seek our panel member input via an e-mail survey. These e-mail surveys are not meant to represent a scientific sample, but rather provide anecdotal information and raise issues for both policy makers and modelers to address. The dairy producers were asked whether they would participate in the potential program laid out under the Modified Dairy Security Act. In general, the responses were pretty evenly split between intending to participate and not participating. It was clear that many producers were not fully aware of the dairy provisions of the bill presented to the Super Committee. There was a clear indication that producers needed more information about the details of the provision to make an informed decision. Some reasons listed for potential lack of participation in the program were: too complicated, potential to hurt export markets, and doubting the market stabilization portion of the program would work if not full participation. On the question of what information the producers need to make a decision on whether to buy-up coverage and at what level, the most mentioned responses included: futures prices for both milk and feed, their operations cost of production, and premium costs. The results of our *ad hoc* survey suggested that more analysis, such as this study were indeed needed to help producers more fully understand the economic implications of the modified Dairy Security Act.

Brief descriptions of assumptions that apply to all alternatives are as follows:

(1) The study period runs from 2009 to 2016. Several years of history are included to ensure the results are tracking what actually occurred in the industry appropriately. Several common financial condition measures are reported for each representative dairy as of the end of 2016.

(2) The milking herd size remains constant throughout the study period.[1]

(3) Milk production is expected to increase at 1.5% annually.

Brief descriptions of alternatives analyzed in this report are as follows:

1. **Current Policy.** Assumes that a new farm bill reauthorizes MILC and other farm programs included in baseline projections by the Congressional Budget Office (CBO) without changing program provisions. This means that MILC payments are limited to 2.4 million pounds of milk, the feed cost adjustor is raised to $9.50, and payments are made on 34% of the difference between the $16.94 base price and the class I Boston price.

2. **Non-Participant.** Assumes that a new farm bill puts in place the provisions of the Dairy Security Act, but that individual representative dairies choose not to participate in the margin protection and market stabilization.

3. **Participant Base Coverage.** Assumes that each representative dairy chooses to participate in margin protection, but only at the basic level (no buy-up). Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

Table 1. Premium Schedule for First 4 Million Pounds of Production

Coverage Level	Premium per Cwt.
$4.50	$0.010
$5.00	$0.025
$5.50	$0.040
$6.00	$0.065
$6.50	$0.100
$7.00	$0.434
$7.50	$0.590
$8.00	$0.922

Table 2. Premium Schedule for Production in Excess of 4 Million Pounds

Coverage Level	Premium per Cwt.
$4.50	$0.015
$5.00	$0.036
$5.50	$0.081

[1] Several farms were analyzed to determine whether their preferences would change under a herd growth scenario. The preferred choice for these farms did not change from the constant herd size analysis.

Table 2. Premium Schedule for Production in Excess of 4 Million Pounds—Continued

Coverage Level	Premium per Cwt.
$6.00	$0.155
$6.50	$0.230
$7.00	$0.434
$7.50	$0.590
$8.00	$0.922

4. **Participant Buy-up $4.50 Coverage.** Individual representative dairies are simulated at the $4.50 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

5. **Participant Buy-up $5.00 Coverage.** Individual representative dairies are simulated at the $5.00 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

6. **Participant Buy-up $5.50 Coverage.** Individual representative dairies are simulated at the $5.50 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables* 1 and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

7. **Participant Buy-up $6.00 Coverage.** Individual representative dairies are simulated at the $6.00 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

8. **Participant Buy-up $6.50 Coverage.** Individual representative dairies are simulated at the $6.50 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

9. **Participant Buy-up $7.00 Coverage.** Individual representative dairies are simulated at the $7.00 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

10. **Participant Buy-up $7.50 Coverage.** Individual representative dairies are simulated at the $7.50 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in

Table 3. Ranking of the 11 Alternatives for Each Representative Farm Using the Highest Net Cash Farm Income Criteria

	Current Policy	Non-participant	Participant								
			Base Coverage	4.5	5	5.5	6	6.5	7	7.5	8
CAD1710	8	7	4	3	1	2	6	5	9	10	11
WAD250	7	8	6	5	4	3	2	1	9	10	11
WAD850	8	7	4	3	1	2	6	5	9	10	11
IDD3000	8	7	3	2	1	4	5	6	9	10	11
NVD500	8	7	6	5	3	2	4	1	9	10	11
TXCD550	8	2	7	6	5	3	4	1	9	10	11
TXCD1300	8	5	4	3	1	2	7	6	9	10	11
TXED400	8	7	6	5	4	3	2	1	9	10	11
TXED1000	8	7	5	3	1	2	6	4	9	10	11

Table 3. Ranking of the 11 Alternatives for Each Representative Farm Using the Highest Net Cash Farm Income Criteria—Continued

	Current Policy	Non-participant	Participant								
			Base Coverage	4.5	5	5.5	6	6.5	7	7.5	8
TXND3000	8	5	4	2	1	3	6	7	9	10	11
WID145	8	7	6	5	4	3	2	1	9	10	11
WID1000	8	7	4	3	1	2	6	5	9	10	11
NYWD600	8	7	6	5	3	2	4	1	9	10	11
NYWD1200	8	7	4	3	1	2	6	5	9	10	11
NYCD110	7	8	6	5	4	3	2	1	9	10	11
NYCD550	8	7	6	5	3	2	4	1	9	10	11
VTD140	5	8	7	6	4	3	2	1	9	10	11
VTD400	8	7	6	5	4	3	2	1	9	10	11
MOGD180	4	2	8	7	6	5	3	1	9	10	11
MOGD550	2	1	8	7	6	5	4	3	9	10	11
FLND550	8	1	7	6	5	3	4	2	9	10	11
FLND1500	8	1	5	4	2	3	7	6	9	10	11

Tables 1 and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

11. **Participant Buy-up $8.00 Coverage.** Individual representative dairies are simulated at the $8.00 margin buy-up covering 90% of their annual production history. Premium payments correspond to rates found in *Tables 1* and *2.* Applicable reductions in dairy payments occur when the margin has been $6.00/cwt or less for the immediately preceding 2 months or $4.00/cwt or less for the immediately preceding month.

Results

AFPC applied the sector level results developed in Brown's analysis for the set of 22 representative dairy farms located across the United States, using AFPC's farm level simulation model for this analysis.

The farm level results reflect actual dairy data developed in our representative farm process. The representative dairies are all analyzed under each of the alternative scenarios described above. The sector level results provided by Brown reflect sector level supply response analyzing current policy as the baseline alternatives based on analysis of the provisions of the DSA.

Table 3 contains the rankings of the 11 alternatives (defined above) for each of the representative dairies. The rankings are based on average Net Cash Farm Income (NCFI) from 2012 to 2016 for each alternative. The alternative with the highest NCFI was given the highest ranking of one. The next highest NCFI was given a ranking of two and so forth, all the way to 11. *Table 3* reveals that 11 of the 22 dairies have the highest average NCFI under the $6.50 buy-up alternative (option 8 described above) followed closely with eight dairies having the highest average NCFI under the $5.00 buy-up alternative (option 5). The large Missouri grazing dairy (MOGD550) and both Florida dairies received the largest average NCFI under the Non-Participant alternative.

In order to convey the magnitude between alternatives, the difference between the highest NCFI option and the next best alternative is presented in *Figure 2.* The color code in *Figure 2* relates to the next best option. The results indicate the average difference per year over the 2012 to 2016 study period. The large Florida dairy shows the largest difference between its highest NCFI alternative (Non-Participation) and its next best option ($6.50 buy-up) at $13,600/year. Conversely, there are ten dairies that show less than a $1,000/year difference.

Figures 3 and *4* also show magnitude of differences between alternatives. *Figure 3* shows the annual average difference in NCFI between the Preferred option and Non-Participation. Three dairies (the large MOGD and both Florida dairies) indicate $0 difference because their preferred option was Non-Participation. Idaho has the largest average annual NCFI difference at $53,500. In general, given the analysis of margin volatility and the ability of the policy options to provide a safety net for that volatility combined with the affects of market stabilization, the analysis suggests that the costs of non-participation for a dairy would be significant especially for the larger dairies.

Figure 4 shows the differences for each dairy between their Preferred option and Current Policy alternatives. These results are similar as those in *Figure 3,* as most dairies have Non-Participation and Current Policy ranked closely in their order of preference. For example, the large Wisconsin dairy has a $14,600 difference between the non-participation ($18,300) and the current policy baseline option ($32,900). The smaller Wisconsin dairy has a very small difference between these same options. Non-participation tends to have the smaller NCFI difference from either of the preferred buy-up options ($6.50 or $5.00) than does the current program. That implies that non-participants in the new program would experience higher NCFI's than otherwise achieved under the current program.

Table 4 contains the average annual premium, lost marketings, and indemnity payments during the 2012 to 2016 study period. This table is a complement to *Table 3* as it gives detail to the representatives dairies highest NCFI

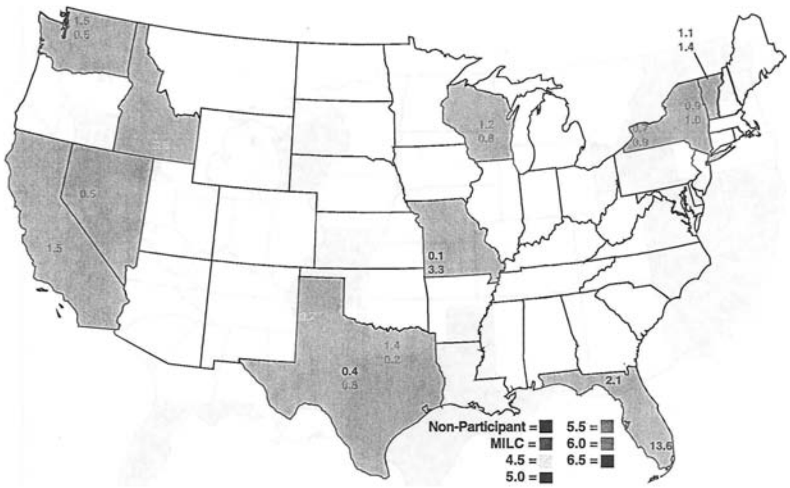

Figure 2. Differences in $1,000 in Average Annual NCFI between Preferred Option and Next Best Option

Note: The numbers are the difference in $1,000 for each farm. Names were omitted due to space considerations. In states with more than one dairy, the moderate size farm is always listed first then the result for the large farm.

Figure 3. Difference in $1,000s in Average Annual NCFI between the Preferred Option and Non-Participation

Figure 4. Difference in $1,000s in Average Annual NCFI between the Preferred Option and Current Policy

Table 4. Average Premiums, Lost Revenues and Government Indemnities for DSA at the $6.50 Buy-Up Option (in $1,000)

	Premium	Income Lost	Indemnity
CA1710	85.2	21.5	88.4
WA250	8.4	3.8	13.0
WA850	42.9	13.4	46.0
ID3000	157.2	42.4	154.9
NV500	20.6	8.2	25.0
TXC550	139.0	58.2	139.3
TXC1300	18.6	9.8	23.0
TXE400	51.7	24.0	55.0
TXE1000	10.2	5.9	14.8
TXN3000	42.9	19.5	46.0
WI145	3.5	0.3	7.7
WI1000	52.2	0.5	71.3
NYW600	25.1	0.8	29.5
NYW1200	56.8	1.5	60.4
NYC110	2.5	0.2	10.2
NYC550	25.1	0.7	29.5
VT140	2.9	1.9	6.4
VT400	15.9	5.9	20.5
MOG180	2.1	2.8	4.7
MOG550	9.1	23.2	13.5
FLN550	17.9	12.5	22.3
FLN1500	59.1	39.0	61.8

for each alternative. For most dairies, the expected average annual indemnity payments outweigh, or exceed, the lost income triggered by the market stabilization and premium payments combined.

Table 5 contains the average annual milk prices for states where representative dairies are located assuming continuation of current policies. *Table 6* contains the average annual milk prices for the same states assuming that the modified DSA is in effect for the 2012 to 2016 study period. The annual average milk prices in *Tables 5* and *6* are averages from a risk-based analysis which simulated 500 different possible future paths for demand and production of crops, livestock, and milk; and thus 500 different paths of annual prices for feed and milk. The 500 sector level price paths were developed by Brown for the current farm program and DSA program both used the same risk so the only differences in prices is attributable to the policy change. The 500 possible price paths for dairy feed prices and milk prices simulated by Brown are appropriately correlated based on historical correlation among these variables. The farm level analyses used Brown's 500 price paths so the DSA premiums and indemnities were calculated using a wide range of possible projections for milk and feed prices, that were correlated based on historical relationships. By using the 500 draws of prices, the results of the farm level analysis are more robust than if the policies were simply analyzed using only the average prices.

Table 7 is related to the previous two tables as it shows the difference in prices between the DSA and current policy for each state (DSA prices minus Current policy). Current Policy (Baseline) milk prices and those projected under the DSA are projected by Brown.

Summary and Conclusions

AFPC analyzed the modified Dairy Security Act of 2011 provisions that was discussed in late 2011 utilizing our set of 22 representative dairy farms located in ten states across the U.S. Each farm was simulated 500 times each year in AFPC's farm level simulation model (FLIPSIM) to incorporate risk in commodity prices and crop and milk yields into the analysis. Each farm was analyzed under 11 options from current policy (MILC) (option 1), to the modified DSA scenario as a non-participant (option 2), to participation at the base level of margin coverage (option 3), to eight buy-up alternatives (options 4–11).

Table 5. Base Milk Price ($/cwt)

	2009	2010	2011	2012	2013	2014	2015	2016
California	11.49	14.69	18.47	16.83	17.08	17.04	17.06	17.21
Florida	16.90	20.70	24.24	23.22	23.40	23.32	23.25	23.49
Idaho	11.80	14.90	18.47	17.20	17.36	17.21	17.13	17.30
Missouri	13.00	16.60	20.71	19.57	19.74	19.62	19.55	19.75
New York	13.60	17.40	21.45	20.14	20.31	20.21	20.16	20.34
Texas	13.30	17.10	20.85	19.65	19.82	19.69	19.61	19.81
Vermont	13.80	17.70	21.63	20.31	20.47	20.38	20.33	20.52
Washington	12.30	16.10	20.68	19.32	19.48	19.36	19.30	19.46
Wisconsin	13.10	16.10	20.29	19.15	19.31	19.06	18.95	19.09
U.S.	12.93	16.26	20.14	18.91	19.09	18.96	18.89	19.06

Table 6. DSA Milk Price ($/cwt)

	2009	2010	2011	2012	2013	2014	2015	2016
California	11.49	14.69	18.47	16.84	17.11	17.09	17.13	17.28
Florida	16.90	20.70	24.24	23.24	23.46	23.39	23.34	23.59
Idaho	11.80	14.90	18.47	17.21	17.41	17.27	17.22	17.39
Missouri	13.00	16.60	20.71	19.59	19.80	19.69	19.64	19.85
New York	13.60	17.40	21.45	20.15	20.36	20.28	20.24	20.43
Texas	13.30	17.10	20.85	19.67	19.87	19.76	19.70	19.90
Vermont	13.80	17.70	21.63	20.32	20.52	20.44	20.41	20.60
Washington	12.30	16.10	20.68	19.33	19.53	19.42	19.38	19.55
Wisconsin	13.10	16.10	20.29	19.18	19.36	19.13	19.03	19.17
U.S.	12.93	16.26	20.14	18.93	19.14	19.02	18.98	19.14

Table 7. Difference between Current Policy and DSA Milk Price ($/cwt)

	2012	2013	2014	2015	2016
California	0.01	0.04	0.05	0.07	0.07
Florida	0.02	0.06	0.07	0.10	0.11
Idaho	0.02	0.05	0.06	0.08	0.09
Missouri	0.02	0.05	0.07	0.09	0.10
New York	0.01	0.05	0.06	0.09	0.09
Texas	0.02	0.05	0.07	0.09	0.09
Vermont	0.01	0.05	0.06	0.09	0.09
Washington	0.01	0.04	0.06	0.08	0.08
Wisconsin	0.03	0.05	0.07	0.08	0.08
U.S.	0.02	0.05	0.06	0.08	0.08

The options were ranked for each farm based on average Net Cash Farm Income (NCFI) from 2012 to 2016 for each alternative. Eleven of the 22 dairies have the highest average NCFI under the $6.50 buy-up alternative (option 8) with eight additional dairies having the highest NCFI under the $5.00 buy-up alternative (option 5). Only the large Missouri grazing dairy and both Florida dairies received the largest average NCFI under a different alternative (option 2—Non-Participation). For most of the farms, the second best option was a slightly lower buy-up level. In general, the current policy alternative (option 1) was among the least preferred.

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APPENDIX A. 2011 CHARACTERISTICS OF PANEL FARMS PRODUCING MILK

CAD1710	A 1,710 cow, large-sized central California (Tulare County) dairy, the farm plants 1,200 acres of hay/silage for which it employs custom harvesting. Milk sales generated 94 percent of 2011 total receipts.
WAD250	A 250 cow, moderate-sized northern Washington (Whatcom County) dairy. This farm plants 200 acres of silage and generated 92 percent of its 2011 gross receipts from milk sales.
WAD850	An 850 cow, large-sized northern Washington (Whatcom County) dairy. This farm plants 605 acres for silage annually. During 2011, 95 percent of this farm's gross receipts came from milk.
IDD3000	A 3,000 cow, large-sized dairy located in the Magic Valley of Idaho (Twin Falls County). This farm plants 1,250 acres of corn silage annually. Milk sales account for 94 percent of 2011 gross receipts.
NVD500	A 500 cow, moderate-sized Nevada (Churchill County) dairy. This farm plants 150 acres of hay and 100 acres of corn silage annually. Milk sales accounted for 93 percent of NVD500's gross receipts for 2011.
TXND3000	A 3,000 cow, large-sized dairy located in the South Plains of Texas (Bailey County). This farm plants 1,440 acres of corn silage annually. Milk sales account for 93 percent of 2011 gross receipts.
TXCD550	A 550 cow, moderate-sized central Texas (Erath County) dairy, TXCD550 plants 1,100 acres of hay each year. Milk sales represented 93 percent of this farm's 2011 gross receipts.
TXCD1300	A 1,300 cow, large-sized central Texas (Erath County) dairy, TXCD1300 plants 680 acres of silage and 440 acres of hay annually. During 2011, milk sales accounted for 93 percent of receipts.
TXED400	A 400 cow, moderate-sized northeast Texas (Hopkins County) dairy. This farm has 400 acres of silage and 125 acres of hay. During 2011, milk sales represented 87 percent of annual receipts.
TXED1000	A 1,000 cow, large-sized northeast Texas (Hopkins County) dairy. This farm plants 1,025 acres of hay/silage. This farm generated 95 percent of 2011 receipts from milk sales.
WID145	A 145 cow, moderate-sized eastern Wisconsin (Winnebago County) dairy, the farm plants 180 acres of silage, 90 acres for hay, 150 acres of corn, and 130 acres of soybeans. Milk constituted 84 percent of this farm's 2011 receipts.
WID1000	A 1,000 cow, large-sized eastern Wisconsin (Winnebago County) dairy, the farm plants 600 acres of hay, 600 acres of silage, 600 acres of corn and 100 acres of soybeans each year. Milk sales comprised 92 percent of the farm's 2011 receipts.
NYWD600	A 600 cow, moderate-sized western New York (Wyoming County) dairy. This farm plants 600 acres of silage, 450 acres of haylage, 100 acres of corn, and 50 acres of hay annually. Milk sales accounted for 91 percent of the gross receipts for this farm in 2011.
NYWD1200	A 1,200 cow, large-sized western New York (Wyoming County) dairy. This farm plants 1,900 acres of silage and 200 acres of corn annually. Milk sales accounted for 93 percent of the gross receipts for this farm in 2011.
NYCD110	A 110 cow, moderate-sized central New York (Cayuga County) dairy, the farm plants 30 acres for hay, 90 acres for corn, and 185 acres for silage annually. Milk accounted for 92 percent of the gross receipts for 2011 on this dairy.
NYCD550	A 550 cow, large-sized central New York (Cayuga County) dairy, this farm plants 625 acres of hay and haylage and 475 acres of silage. Milk sales make up 93 percent of the 2011 total receipts for this dairy.
VTD140	A 140 cow, moderate-sized Vermont (Washington County) dairy. VTD140 plants 60 acres of hay and 160 acres of silage annually. Milk accounted for 91 percent of the 2011 receipts for this farm.
VTD400	A 400 cow, large-sized Vermont (Washington County) dairy. This farm plants 100 acres of hay and 850 acres of silage annually. Milk sales represent 93 percent of VTD400's gross receipts in 2011.
MOGD180	A 180 cow, grazing dairy in southwest Missouri (Dade County), the farm grazes cows on 265 acres of improved pasture. Milk accounted for 91 percent of gross farm receipts for 2011.
MOGD550	A 550 cow, grazing dairy in southwest Missouri (Dade County), the farm grazes cows on 520 acres of improved pasture. Milk accounted for 91 percent of gross farm receipts for 2011.
FLND550	A 550 cow, moderate-sized north Florida (Lafayette County) dairy. The dairy grows 130 acres of hay each year. All other feed requirements are purchased in a pre-mixed ration. Milk sales accounted for 93 percent of the farm receipts.
FLSD1500	A 1,500 cow, large-sized south central Florida (Okeechobee County) dairy, FLSD1500 plants 100 acres of hay and 400 acres of silage annually. Milk sales represent 94 percent of 2011 total receipts.

A policy research report presents the final results of a research project undertaken by AFPC faculty. At least a portion of the contents of this report may have been published previously as an AFPC issue paper or working paper. Since issue and working papers are preliminary reports, the final results contained in a research paper may differ—but, hopefully, in only marginal terms. Research reports are viewed by faculty of AFPC and the Department of Agricultural Economics, Texas A&M University. AFPC welcomes comments and discussions of these results and their implications. Address such comments to the author(s) at:

Agricultural and Food Policy Center
Department of Agricultural Economics
Texas A&M University
College Station, Texas 77843–2124

or call (979) 845–5913.

The CHAIRMAN. Thank you, Dr. Brown.

Mr. Wright.

STATEMENT OF PATRICK JOSEPH "JOE" WRIGHT, V&W FARMS, INC.; PRESIDENT, SOUTHEAST MILK INC., AVON PARK, FL

Mr. WRIGHT. Good afternoon. I would like to start by thanking Chairman Lucas, Chairman Rooney, and Ranking Members Peterson and Cardoza for this opportunity to come before this Committee and offer comments on the formulation of the dairy title of the 2012 Farm Bill.

My name is Joe Wright. I am a third-generation dairy farmer from Avon Park, Florida. My family-owned dairy farm consists of 1,200 cows on a pasture-based grazing operation. I am also the President of the Florida-based cooperative, Southeast Milk Incorporated. Last year, *Hoards Dairyman* listed Southeast Milk as the 15th largest dairy cooperative in the country. We market milk for 230 family-owned dairy farms located in nine southeastern states. My comments will be from both a southeastern perspective, and particularly, a Florida perspective.

We support Federal Milk Marketing Orders. Federal Orders promote a level playing field among processors and a level playing field among producers and producer cooperatives, especially in a fluid milk market like the southeastern United States. My written comments list the many benefits of Federal Orders. If I may name the single biggest benefit to the dairy farmer, Federal Orders contain clearly defined and enforceable payment terms for processors to pay farmers for their milk. Even free markets need rules to ensure competition and fair dealing. This is particularly true when the beneficiaries of those rules are the small rural businesses that make up America's dairy farmers. We ask that any changes to the Federal Orders be done through the administrative hearing process where all parties can be fairly heard and not through the legislative process.

We ask for the outright repeal of the Dairy Product Price Support Program, the Milk Income Loss Contract and the Dairy Export Incentive Program on the grounds that they are obsolete and ineffective. In this age where livestock producers effectively have to compete for grain against a Federal mandate for ethanol production, we do believe that any meaningful dairy farmer safety net needs to be based on the concept of margin protection defined as the difference between the price of milk and the price of feed. My written comments describe both the extensive efforts that National Milk Producers Federation took to arrive at its margin protection plan proposal as well as my own participation in the USDA's Livestock Gross Margin Dairy Program.

Southeast Milk has consistently opposed supply management for two reasons. First, the Southeast as a region is deficit in milk production even for fluid milk needs, so the very concept of supply management makes no sense to us. Second, our milk production pattern in the Southeast is much more seasonal than that of the rest of the country due to our heat and high humidity during the summer and early fall. If supply management kicks in during that time frame, it actually penalizes our producers by restricting production at a time when we do not have enough production anyway. We would actually have to buy additional milk from other regions of the country to replace the very milk our producers are restricted from producing. Southeast Milk has aggressively tried to organize industry opposition to completely get rid of the supply management concept. We have not been successful.

We are not endorsing the Dairy Security Act. However, we can honestly say that the Dairy Security Act has been well vetted within the industry. With the changes that have been made through the legislative process, we can accept the Dairy Security Act as a reasonable compromise that is trying to bring a very diverse dairy industry together. If the Dairy Security Act passes in its current form, it would be a significant improvement over the present dairy farm safety net programs.

Before I close, I do need to express our support for other titles of the farm bill, their programs and funding, make a special pitch for research. Our land-grant universities have been invaluable to American agriculture. Due to time constraints, I provided more details in my written testimony and appreciate your consideration.

Thank you for the opportunity to testify. I would be happy to answer any questions that you might have.

[The prepared statement of Mr. Wright follows:]

PREPARED STATEMENT OF PATRICK JOSEPH "JOE" WRIGHT, V&W FARMS, INC.; PRESIDENT, SOUTHEAST MILK INC., AVON PARK, FL

Good afternoon. I would like to start by thanking Chairman Lucas and Chairman Rooney and Ranking Members Peterson and Cardoza for this opportunity to come before this Committee and offer comments on the formulation of the dairy title of the 2012 Farm Bill. My name is Joe Wright. I am a third generation dairy farmer from Avon Park, Florida. My family owned dairy farm consists of 1,200 cows in a pasture based grazing operation. I am also the President of the Florida based dairy cooperative, Southeast Milk, Inc. Last year, *Hoards Dairyman* listed Southeast Milk as the fifteenth largest dairy cooperative in the country. Southeast Milk markets milk for 230 family owned dairy farms located in nine southeastern states.

For months you have heard from the various factions in the dairy industry on what should and should not be in any dairy reform proposal. Some of my comments will mirror many of these comments, but being from the Southeast and Florida in particular, today I will bring a different perspective on several points that probably have not yet been fully explained.

Let me start with a point that I believe has found wide support in the dairy industry and that is the elimination of the Dairy Product Price Support Program. It is a counterproductive, obsolete, government program. Simply stated, the price support is on nonfat dry milk while the world market wants whole milk powder or skim milk powder. Milk powder manufacturers in the U.S. have too much incentive to make nonfat so they can always dump it on the government as a sale of last resort. By the U.S. Government subsidizing nonfat, we also set a floor on the world price of dairy products. Please stop this insanity and end this program.

Milk Income Loss Contract (MILC) is another program that most of the industry recognizes is a wholly inadequate safety net for dairy producers. Approximately seventy five percent of the milk produced in the U.S. hits the production cap fairly quick, so essentially there is no meaningful safety net for most of this nation's milk supply. For example, my farm will use up its MILC cap this spring in less than 2 months. The present era of Federal Government mandated renewable fuels has the unintended consequence of dramatically driving up feed prices for animal agriculture. That means we need to move to a concept of milk margins, which is defined as the price of milk minus the price of feed.

While we are opposed to the continuation of the Dairy Product Price Support Program, MILC, and the Dairy Export Incentive Program (DEIP), we do support fiscally responsible dairy programs such as Federal Milk Marketing Orders and a margin protection program that is both dairy producer and Federal budget friendly.

We are strong supporters of the Federal Milk Marketing Orders. As a reminder, the Federal Order program is a producer program. Federal Orders promote a level playing field among processors *and* a level playing field among producers and producer cooperatives, especially in a fluid milk market like the southeastern United States. To be more specific, Federal Orders:

- Act as a check and balance among processors as a base price discovery mechanism.
- Are directly responsible for 90% of our milk price. Over Order premiums comprise the remainder of our milk price. The premium dollars, together with service, quality and source of milk (local or otherwise) are fertile ground for competition.
- Require that all processors report sales by class so processors cannot cheat the system by underreporting sales of the highest price class.
- Provide the tools through audit procedures and regulations to keep processors honest in their reporting.
- In the event a processor is not playing by the rules, all competitive processors know that penalties can be levied against that competitor.
- Act as a balance between processors and producers by providing for fat testing to assure each side is treated fairly by the other.
- Act as a clearing house in resolving disputes between processors and individual producers regarding fat and weights.
- Contain clearly defined and enforceable payment terms for processors to pay producers for their milk.
- Establishes rules to ensure competition and fair dealing which is needed in all free markets to benefit the small rural businesses that make up America's dairy farmers.

Federal Milk Marketing Orders is a Federal program that is very cost effective. Over the past 10 years, government outlays have only been an average of $5.5 million per year. Please make sure that any dairy reform proposal that may pass Congress does not include any changes to the Federal Milk Marketing Order system.

Southeast Milk is also a supporter of milk margin protection plans. As part of National Milk Producers Federation's "Foundation For The Future" process, I sat on the task force for margin protection. We met multiple times over the course of a year and a half to explore all the permutations associated with such a plan, such as; impacts to the Federal budget, whether to use the Farm Service Agency or Risk Management Agency to administer the program, whether to use national or regional measures for both the milk price and the feed price, and the correct balance between basic and supplemental coverage. As a resource, we had the expertise of Dr. Bruce Babcock from Iowa State University, one of the foremost experts in the country on crop insurance programs. In the era of biofuels and corn ethanol, margin insurance makes more sense for a dairy producer safety net than any other single element.

Before leaving the area of margin protection, I should comment on one of USDA's early efforts to introduce a margin protection program to the dairy industry known as Livestock Gross Margin-Dairy (LGM-Dairy). It has just been in the last year or so that LGM-Dairy became available to producers in Florida. This is more of a crop insurance program with partially subsidized premiums administered through RMA. To date, our dairy has purchased three LGM-Dairy contracts. One of those contracts has concluded, the other two contracts are still active. A LGM-Dairy contract is a more complicated and time consuming program for the producer relative to the margin protection plan contained in the Dairy Security Act. However, we can custom tailor the LGM-Dairy contract to cover the needs of our dairy by varying the relative emphasis on milk price *versus* feed price. This concept more accurately tries to capture the great variability among management styles of dairying. The real disadvantage for the LGM-Dairy program is there is simply not enough money in the program. The policies use up the allotted money too rapidly so producers who would like to participate are either outright precluded from participating, or the limited funding precludes them from using the program in the manner in which would optimize its usefulness to the producer. That comment means that producers often must make once a year decisions to buy or not buy LGM-Dairy coverage when funding is available, while the program really contemplates, in theory anyway, a producer having the ability to make decisions on a monthly basis.

The last specific dairy program point I want to make is on dairy supply management. Southeast Milk has consistently opposed supply management for two reasons. First, the Southeast as a region is milk deficit, so supply management makes no sense. Second, milk production in the Southeast has a large seasonal swing compared to the rest of the country, so distortions caused by supply management could be exaggerated in the Southeast depending on the time of year restrictions are triggered. As a cooperative, our milk production at Southeast Milk can range from a low of 190 million pounds in a month like September to a high of 250 million pounds or more in March. This production swing is due to the combination of heat and high humidity that we experience in the summer months. Our Class I sales can run 240+ pounds of Class I sales per month. We import milk at a net loss to us during the deficit months. If supply management were to kick in and restrict production during late summer, producers would not only have their usual annual drop due to heat and humidity, but also lower production required by supply management, and the cooperative would have to spend even more money importing milk to cover the shortfall between production and sales—the cost of which also comes out of producer milk checks. Relative to the rest of the country, the Southeast as a region realizes a cost of supply management that other regions of the country will simply not bear because the production patterns of other regions do not fluctuate nearly as great.

At Southeast Milk, we tried to organize industry opposition to completely get rid of supply management, but our effort was not successful. However, we should acknowledge that as a result of a continuous process to improve the Dairy Security Act, there are a couple of changes that have made the legislation more palatable to us. First, the supply management provisions are voluntary rather than mandatory, although a producer cannot sign up for the margin protection without also signing up for supply management. Second, there are thresholds in place that prohibit the onset of supply management, regardless of dairy margin levels, if the U.S. price for milk is high enough relative to the world market to effectively preclude the movement of U.S. dairy products overseas due to additional price enhancement caused by supply management. These changes to the latest version of the Dairy Security Act related to supply management have made the proposal less onerous.

I would like to wrap up my comments by relaying our thoughts specifically to the latest version of the Dairy Security Act developed as part of the budget negotiations. We are pleased this version does not make any changes to the Federal Milk Marketing Orders. Changes to Federal Orders should be done through the administrative hearing process where all parties can be fairly heard, and NOT through the legislative process. The proposal's elimination of the MILC program is a positive step because the program is wholly inadequate as a dairy farmer safety net and should be repealed. The margin protection provision is commendable but unfortunately it is only available to those agreeing to supply management. The overwhelming majority of our members have told us that making supply management an eligibility requirement for margin protection means they will not participate.

The supply management provision keeps us from being able to endorse the Dairy Security Act because we are philosophically opposed to supply management for the Southeast for the above stated reasons. However, we are somewhat persuaded by the argument that our producers would benefit from a margin program linked to participation to a supply management plan even if we do not sign up. To the extent that producers in other regions of the country do participate in supply management, the market as a whole should move faster to a market equilibrium price. That should moderate, but not eliminate price volatility. Both producers and processors would benefit from less volatility. We do view the Dairy Security Act as a whole to be a reasonable compromise that is trying to bring a very diverse industry together. If the Dairy Security Act passes as current outlined, it would be a significant improvement over the present dairy safety net programs.

Last, I would like to briefly highlight farm bill titles other than the commodity dairy program title that are important to our industry. This is not an all inclusive list but these following warrant mention.

Conservation Title: Dairy farmers like all farmers are stewards of the land. Due to the high capital costs for most environmental projects, we truly need the assistance of USDA conservation programs. We see core benefits for programs directed to "working lands" and cost-share programs such as Wetland Reserve Program (WRP), Environment Quality Incentive Program (EQIP), Grassland Reserve Program (GRP), and Wildlife Habitat Improvement Program (WHIP). In particular, EQIP is a great tool for Florida's dairy industry.

Nutrition Title: The provisions in this section of the farm bill are critical to both the dairy industry and the almost 60 million citizens in need of nutritional assistance. Dairy products are critical to a healthy balanced diet. The programs that make up the USDA food assistance programs account for 11% of all U.S. dairy sales.

Crop Insurance Title: The uncertainties of weather, yields, prices, government policies, global markets, and other factors can cause wide swings in farm income. Managing risk is an important aspect of the farming business. Particularly in today's tight credit markets, and at least in Florida credit today is still VERY tight for small businesses, USDA risk management tools are an invaluable resource. We request more money for LGM-Dairy.

Research Title: The Research provisions of the farm bill and other Federal research programs are key investments in creating new solutions for tomorrow's problems and keeping dairy and all of agriculture sustainable, and thus continuing to provide consumers with economical, safe and wholesome food. It is imperative, that as a nation we are aggressive in seeking the latest technology and knowledge in maintenance of herd health/animal welfare, disease prevention/treatment and production of high quality milk. Improvements in technology over the past 60 years have led to the ability to produce 50% more milk with only ⅓ of the cows and at the time reducing the impact of animals on the environment, as the amount of waste per gallon of milk declines with greater efficiency.

This year is the 150th anniversary of the Land-Grant Act which established the land-grant universities. We believe in the system so much that SMI farmers have donated millions of dollars to the University of Florida to assist them in carrying out research on our behalf. We ask Congress to continue and increase its partnership of funding research through our land-grant institutions.

Again, thank you for this opportunity to address this Committee and I appreciate your thoughtful deliberation of this important issue. I will answer any questions you may have of me at the appropriate time.

The CHAIRMAN. Thank you, Mr. Wright.

From Florida, we move to California and Mr. Barcellos.

STATEMENT OF TOM BARCELLOS, OWNER/OPERATOR, T-BAR DAIRY; BOARD PRESIDENT, WESTERN UNITED DAIRYMEN, PORTERVILLE, CA

Mr. BARCELLOS. I would like to thank Chairman Rooney, Ranking Member Cardoza, and the Members of the Subcommittee for inviting me here today to discuss Federal dairy policy. I am Tom Barcellos, Owner/Operator of T-Bar Dairy for 23 years. We milk 800 cows in Tulare County, the number one dairy county in the country. For 36 years, I have also owned and operated Barcellos Farms, a diversified farming, custom harvesting and trucking business dealing mostly in hay, grain and silage feed for my own and other local dairies. I am a third-generation dairy farmer milking on the facility built by my grandfather and his sons over 70 years ago. My wife Felomena and three daughters have all worked on the farm helping with the hay and harvesting when needed. Two son-in-laws have joined the business, and now my grandsons already describe to their friends the proper steps in haying.

We want to thank the Members of this Committee and National Milk Producers Federation, my co-op Land O'Lakes, Western United Dairymen and others in the dairy industry who have worked the better part of the last 2 years developing a safety net that recognizes we can no longer rely on milk price alone as a target. To anyone listening today who has been part of that effort, I say thank you.

California's dairies, family owned and operated, continue to face challenges from low, flat and sometimes negative margins on milk production. Dairymen everywhere are still trying to recover from the devastation of 2009. Equity carried in from previous years was all but wiped out in 1 year. The bleeding stopped in late 2010. We made up a little ground in 2011, but for 2012, our input costs remain very high and the milk price is headed in the wrong direction.

While dairy producers face unique challenges, input costs remain the most significant barrier to profitability. More profitable crops limit acres for corn, hay and forages grown in California so dairymen are subject to the whims of the world oil market and the impact those forces have on what it costs to transport the concentrates to feed our cows. Fuel and energy costs continue to escalate with regulatory costs that impede our road to recovery as well. In just the last month alone, 17 local dairies shipping to my co-op went out of business and several others sold their dairies ahead of bankruptcy. Three filed for bankruptcy protection in just the last 2 weeks.

There is a lot to like about the plan that led to the introduction of the Dairy Security Act last September. As a dairy farmer, I am pleased to have it as the base of discussion going forward for the next-generation safety net. The proposal moves from a price-based model with volume-limited countercyclical payments to a plan based on margin insurance that is available to every farmer on 80 percent of their milk. There have been several improvements made during its development including scaling back government involvement in market stabilization, making the program more responsive to the export market and allowing market stabilization to transition from mandatory to voluntary. Later versions eliminated legislative changes to Milk Marketing Orders. Those changes are best handled by the regulatory agencies. California producers support the current industry practice of dairy farmers everywhere having the choice of how to be regulated or whether to be regulated at all.

The proposal continues to evolve as Congress moves ahead on consideration of the next farm bill. I support these changes and would like to offer a third option. Feed costs are different where most of the milk is produced *versus* where most of the feed is produced. It would be helpful for dairy farmers everywhere to have the option of choosing a market-based margin plan that values feed where it is used rather than a production-based plan that prices it where it is grown. The way the Dairy Security Act and its later versions are written, dairy farmers have two options on a safety net: no program or one that uses a national feed cost calculation. A third choice could be a margin protection with a feed cost calculation using an average of costs from the ten states with the highest milk production volume. With budget constraints in mind, this program could be written so that premiums paid by the farmers would cover the cost.

I do want to raise a concern about payment limits. This program was negotiated in the industry to be neutral with regards to operation size. Restrictions on how much a producer can benefit from coverage in either the basic or purchased supplemental form, will erode political support for legislation and would threaten participation in any program ultimately implemented. Recent voluntary production cutbacks undertaken by cooperatives like mine due to processing capacity constraints must not be held against producers in a safety net that uses production history. The basic margin plan allows the highest of the last 3 years production to be the base while a supplemental plan relies on the most recent year's volume only. That could be a major barrier to California producers' participation in the program if this goes unaddressed.

I would like to thank the Committee and the Chairman, and I look forward to answering any questions.

[The prepared statement of Mr. Barcellos follows:]

PREPARED STATEMENT OF TOM BARCELLOS, OWNER/OPERATOR, T-BAR DAIRY; BOARD PRESIDENT, WESTERN UNITED DAIRYMEN, PORTERVILLE, CA

I'd like to thank Chairman Rooney, Ranking Member Cardoza, and the Members of the Subcommittee for inviting me here today to discuss Federal dairy policy from a producer perspective. My name is Tom Barcellos, owner/operator of T-Bar Dairy for 23 years. We milk about 800 cows in Tulare County, the number one dairy county in the country. For 36 years I have also owned and operated Barcellos Farms, a diversified farming, custom harvesting and trucking business dealing mostly in hay, grain and silage feed for my own and other local dairies. I am a third generation dairy farmer milking in the facility built by my grandfather and his sons. My wife, Felomena, and three daughters have all worked on the dairy and farm, helping with the haying and harvesting when needed. Two sons-in-law joined the business and now my grandsons already describe to their friends the proper steps in the haying process.

The pending expiration of the current farm bill on September 30th offers that once-in-every-5-years chance to make a change to the Federal economic safety net for the nation's dairy farm families like mine. I add my personal thanks to the Members of this Committee and to the hardworking men and women at National Milk Producers Federation, my co-op Land O'Lakes, Western United Dairymen and others in the dairy industry who have spent the better part of the last 2 years developing a safety net that recognizes that we can no longer rely on milk price alone as a target. To anyone listening today who has been a part of that effort, and you know who you are, I say thank you.

California's dairy families, and I can't think of a farm in the state that isn't owned and operated by a family, continue to face challenges from low, flat and sometimes even negative margins on milk production. Dairymen everywhere are still trying to recover from the devastation of 2009. Equity carried in from previous years was all but wiped out in 1 year. That equity is no longer there to offset future losses. The bleeding stopped in the second half of 2010 and we made up a little ground during most of 2011 but here in early 2012 our input costs remain very high and the milk price is headed in the wrong direction.

While it is well known that California dairy producers face some unique challenges, input costs remain the most significant barrier to profitability that can be addressed in a farm bill. More profitable crops limit the amount of corn and forages grown in California so dairymen in the state are subject to the whims of the international oil market and the impact those forces have on what it costs to transport the concentrates we feed our cows. Fuel and energy costs continue to escalate along with regulatory costs that impede our road to recovery as well. In just the last month alone, 17 local dairies shipping to my co-op went out of business and several others sold their dairies ahead of bankruptcy. Three filed for bankruptcy protection in just the last 2 weeks.

Our industry has been very aggressive in developing and expanding export markets. Nationwide we're up to 13% of production going to the export market and California will continue to be a leader in supplying customers throughout the Pacific Rim. Our ability to continue growing in the future will depend on the export market. But surviving the short term as those markets develop provides another layer of risk. We learned that all too well in late 2008 and through 2009 as the worldwide financial crisis sent our exports tumbling. In just a few weeks we lost five percent of the market for U.S. milk. Not five percent of our exports, five percent of our market.

The economic disaster that began for dairy farmers late in 2008 unfolded just a few short months after the current farm bill was enacted. The dairy safety net in that farm bill consisted of a price support program with a target roughly half what many farmers need to break even and a discriminatory payment program that picked winners and losers and, according to one government study, actually lowered farm milk prices. The inside-the-beltway Washington, D.C. political process that led to that program failed the industry that year and America's dairy farm families paid the price. The only conclusion possible is that the current dairy economic safety net is ineffective and needs to be retired and replaced, not tweaked or adjusted.

There is a lot to like about the plan that led to the introduction of the Dairy Security Act last September. A considerable amount of work went into that plan and as a dairy farmer I'm pleased to have it as the base of discussions going forward for the next generation safety net. The proposal moves from a price-based model with volume-limited countercyclical payments to a plan based on margin insurance that is available to every farmer on 80% of their milk.

There have been several improvements made to the plan during its development including the scaling-back of government involvement in market stabilization, making the program more responsive to the export market and allowing market stabilization to transition from mandatory to voluntary. Later versions of the bill have also eliminated legislative changes to Milk Marketing Orders. Those changes are best handled by the regulatory agencies. California producers support the current industry practice of dairy farmers everywhere having the choice of how to be regulated or whether to be regulated at all.

The proposal does continue to evolve as the Congress moves ahead on consideration of the next farm bill. I am happy to express my support for those changes and would like to offer up another. This change would recognize the fact that feed costs are different in the areas of the country where most of the milk is produced than in the areas of the country where most of the feed is produced. It would be helpful for dairy farmers everywhere to have the option of choosing a market-based margin plan that values feed where it is used rather than a production-based plan that prices it where it is grown.

The way the Dairy Security Act and its later versions are written, dairy farmers have two options on a safety net: no program or one that uses a national feed cost calculation. The proposal that has been developed by Western United Dairymen is offered as a third choice that would be available to producers. The proposal is for a margin program with a feed cost calculation using an average of the costs from the ten states with the highest milk production volume. With budget constraints in mind, this program could be written so that premiums paid by farmers would cover the costs.

Recognizing this is a House Agriculture Committee hearing, I do want to raise a concern about the elimination of a payment limits exemption for the program in H.R. 3062, "The Dairy Security Act," from the language under consideration in the Senate. This program was negotiated in the industry to be neutral with regard to operation size. Restrictions on how much a producer can benefit from coverage, in either the basic or purchased supplemental form, will erode political support for legislation and would surely reduce participation in any program ultimately implemented.

Recent events in California raise another issue the must be discussed as the farm bill moves forward. Voluntary production cutbacks undertaken by cooperatives like mine due to processing capacity constraints must not be held against producers in a safety net that uses a production history, as does the DSA. The basic margin plan allows the highest of the last 3 years' production to be the base while the supplemental plan relies on the most recent year's volume only. That could be a major impediment to California producers' participation in the program if this issue goes unaddressed.

I'd like to take some time now to thank the Committee for its work on other aspects of the farm bill. The conservation title is very important to dairy producers everywhere. Many California dairymen have EQIP contracts and I thank the Committee for maintaining the integrity of that program. It's especially difficult to continue programs like this, let alone strengthen them, in a down economy and dairymen appreciate the work you are doing.

Nutrition title programs are also important to the dairy industry as a whole. Those assistance programs provide critical dairy nutrition to millions of people in this country, many of them children. Studies show families with kids are more likely to need assistance and they account for nearly ½ of the families currently participating in the Supplemental Nutrition Assistance Program (SNAP), better known as the Food Stamp Program.

This Committee does not have jurisdiction over Immigration Reform, but I want to take this opportunity to reinforce the fact that nothing we are talking about here today outweighs the need for agriculture to have access to a legal workforce. Please encourage your colleagues to find a solution to that need, and be sure that they include a program that offers current experienced workers a chance to be here legally and to fill year-round jobs like those on dairies.

Farmers everywhere are also watching what the Congress does on reform of the Estate Tax. This is a critical issue for us as we look to have options for passing along the land and the operation that we have built as a family to the next generation. Farm families need certainty on the Estate Tax and I encourage this Committee to be at the table working with your colleagues on our behalf.

This Committee has been very helpful on trying to limit unnecessary environmental regulation of agriculture by the Federal Government. These regulations are often costly and only serve to duplicate what state regulatory agencies are already doing. In addition, the EPA must demonstrate that they have the ability to protect the privacy of farmers who submit information and to have policies in place to make that happen.

Agriculture trade policy is critical to us as the U.S. dairy industry looks increasingly at offshore markets for growth. My Congressman, Devin Nunes, sits on the Trade Subcommittee of the Ways and Means Committee and I want to thank him for the active role he takes in working on trade agreements on behalf of dairy farmers. We have supported negotiation and passage of the recent Free Trade Agreements with South Korea, Colombia and Panama and we look forward to working with the Congress on future opportunities for growth. We also look to our elected officials, however, when it is clear an agreement would put us at a disadvantage. Dairy farmers are very concerned that we're about to be forced into open access to our market for New Zealand, a trade competitor with an industry that operates as what has been called a functional monopoly. U.S. dairy producers will compete with their counterparts anywhere in the world as long as the playing field is level.

Thank you again for holding this hearing and for the invitation to testify. I look forward to answering questions the Members may have.

The CHAIRMAN. Thank you, Mr. Barcellos.

Now we move to Mr. Davis. Mr. Davis.

STATEMENT OF JON DAVIS, CHIEF EXECUTIVE OFFICER, DAVISCO FOODS INTERNATIONAL, INC., Le SUEUR, MN; ON BEHALF OF INTERNATIONAL DAIRY FOODS ASSOCIATION

Mr. DAVIS. Good afternoon, and thank you, Chairman Rooney, Ranking Member Cardoza, and other Members of the Committee.

Davisco started in 1943 when my grandfather bought the St. Peter Creamery in Minnesota. We now have plants in Minnesota, Idaho and South Dakota, offices in Minneapolis, Geneva, Shanghai, and worldwide strategic partners in the Middle East, Japan and Africa. We produce 400 million pounds of cheese annually and are one of the largest suppliers to Kraft Foods. In addition, our family currently owns and operates two dairy farms in southern Minnesota milking 6,000 cows every day.

It was President Reagan who said that the nine most terrifying words in the English language are "I'm from the government and I'm here to help." President Reagan would roll over in his grave if he heard what is being proposed for our dairy industry. I am here to tell you that the Dairy Market Stabilization Program is the elephant in the room with the Dairy Security Act. I don't care what you call it—quotas, supply management, production limits—the stabilization program will periodically limit milk production and will have our government, not the marketplace, determining the price of milk. It will hurt both dairy processors and producers. Davisco has been successful in becoming a major exporter of dairy products, something that has benefited our company and the dairy farmers who supply us with milk. The stabilization program will limit our ability to increase our sales opportunities all around the world.

The world is looking for quality American dairy products. Over the last 5 years, we have gone from importing more than we export to now having a trade surplus last year of $2.4 billion. In 2011, U.S. dairy exports reached 12 percent of our milk supply. This year it will be over 15.

Davisco has recently invested more than $1 million in our factories, largely because of our growing export business. Many other dairy companies have also invested in new processing facilities to take advantage of those same markets. While supply management legislation is being debated, most, if not all, of the next wave of dairy processing investment is on hold. We simply can't afford to commit capital when we don't know if we will have the milk supply to operate those potential new investments.

We have finally become the supplier of choice among buyers of dairy products on the verge of even more growth and now the government is here to help. Supply management will discourage future investment for dairy processors, limit our ability to export at a cost of processing jobs, and denying dairy farmers opportunities to expand. It will have repercussions we may never be able to repair.

You can listen to policy wonks on the politics of this issue, but here is something from the real world. I recently was in Seoul with a potential customer of our cheese who asked me why the U.S. dairy industry was so enthusiastically trying to pass a free trade agreement with South Korea while at the same time seriously considering supply management as policy. Apparently he hasn't seen the spreadsheet that predicts what his and other foreign buyers' decisions will be faced with when supply management is implemented. That is our reality check of what is going on around the world.

The proposed supply management is not voluntary nor can it be altered to make it fangless. I will have no choice but to change my business strategy due to the fact that nothing about this program will be voluntary for me.

Davisco processes 4 billion pounds of milk annually. That is 11 million pounds a day, or 200 tankers that come in and out of our factories every day. If any of that milk comes from a farmer who is enrolled in margin insurance, I have to track, monitor, deduct and make payments to the government in order for the government, not the marketplace, to encourage less milk supply. The marketplace, not the government, should pick the winners and losers in the dairy industry. The free market is a very effective supply manager as long as the government allows it to work.

Dairy farmers who want and need margin protection will have no choice, even if they disagree. They cannot sign up for margin insurance without being subject to the supply management plan. No other USDA insurance program has supply management compliance provisions. Why are we hamstringing our dairy industry, farmers and processors with such a policy?

Although the Committee is being told that dairy producers all support the Dairy Security Act, I can assure you there are many dairy producers who oppose it. It would be good for the Committee to hear from some of them. The nation's second largest dairy co-op, California Dairy, that produces 43 percent of the milk in California, is opposed to the stabilization program. Other progressive producer organizations like the Wisconsin Dairy Business Association, Minnesota Milk Producers and the Northeast Dairy Producers Association are also opposed.

It is simply not necessary that programs like margin insurance be tied to the supply management program. Such a program can easily be offered within the limits of the dairy baseline. Earlier this week, Senator Bennett from Colorado introduced an amendment to the Senate farm bill that would authorize stand-alone margin insurance funded through modest producer-based premiums just like standard crop insurance. IDFA supports such alternative proposals and stands ready to work with this Committee to develop a similar approach.

For the record, I have a copy of our legislative proposal for margin insurance without supply management, and I would like to share it with all of you. If the Members do not want producers to pay for part of these premium costs, the Committee should consider that other sectors of agriculture have multiple government-subsidized farm safety net programs yet dairy is lacking even basic catastrophic revenue protection. Dairy makes up ten percent of all farm receipts yet receives less than one percent of the benefits of commodity support programs.

I have been told over the course of the past few days how 2009 negatively impacted dairy farmers' equity. Well, as we all know, 2009 severely impacted virtually every industry's equity, and trying to craft a policy based on the 2009 economic crash is only going to cause future headaches for the U.S. dairy industry. U.S. Government either has a milk supply management program or we don't. You are going to have to reject this policy outright or adopt it. Thank you. I appreciate it.

[The prepared statement of Mr. Davis follows:]

PREPARED STATEMENT OF JON DAVIS, CHIEF EXECUTIVE OFFICER, DAVISCO FOODS INTERNATIONAL, INC., LE SUEUR, MN; ON BEHALF OF INTERNATIONAL DAIRY FOODS ASSOCIATION

Thank you for the invitation to testify today on behalf of the International Dairy Foods Association. IDFA has over 230 dairy food company members and represents over 85% of the ice cream, cheese and bottled milk that is processed and marketed in the United States. IDFA members employ over 120,000 employees at hundreds of production plants across the country. IDFA represents large well-known food companies like Nestlé and Kraft but also small businesses like the Ice Cream Club located in Boynton Beach, Florida.

Around the world, governments are making notable changes to domestic and trade policies affecting their dairy industries. The European Union is in the final phase in its effort to reform dairy policy, which will include phasing out farm-milk quotas by the end of 2014. Australia ended Federal dairy-support programs and eliminated its classified pricing scheme in 2000. New Zealand became the fastest growing dairy exporting country during the past 30 years after eliminating dairy supports.

The combination of these policy reform efforts and increased international demand for dairy products has allowed the United States to become a major dairy exporter. Less than 10 years ago, the United States exported about 5% of U.S. milk production in the form of dairy products, mostly the result of government export subsidies under the Dairy Export Incentive Program. In recent years, exports have grown to be over 13% of U.S. milk production, without significant government export assistance.

Dairy processors, including Davisco, have invested hundreds of millions of dollars in the last few years in order to take advantage of these new markets. This has been a remarkable success story and dairy is clearly helping our nation's economy recover from the recent downturn. Last year, we had a dairy trade surplus of $2.4 billion. According to USDA, every $1 billion of trade surplus creates over 8,000 jobs in this country.

Export demand is growing at a much faster rate than domestic demand for dairy products. Last year, total fluid milk sales were down 1.7% as the economic pressure on consumers has led them to purchase fewer gallons of milk and move to cheaper milk alternatives. In fact, fluid milk sales are facing an extended and unprecedented decline in year-over-year sales. This is unfortunate, because milk is one of the few beverages containing nine essential nutrients.

Demand for raw milk has continued to increase over the last few years. But, let's be clear on what is driving that increased demand. Between 2003 and 2011, only 37% of that increase was due to domestic demand. Increased export sales, due to our dairy industry's successful and somewhat newfound ability to compete in international markets, has been driving the majority of our industry's growth for dairy farmers and processors over the last few years.

There is general agreement that our current dairy policies need to be reformed.

The Federal Milk Marketing Order system needs to be phased out. The rigid, complex formulas used to determine minimum milk prices are the source of a long list of egregious problems, such as keeping fluid milk prices artificially high and discouraging innovation in dairy ingredients that are not recognized in the government's price formulas. If our industry was freed from these artificial formulas to respond to consumer demand, we would be more competitive. IDFA has worked diligently to get industry wide consensus on reforming the FMMO system; however the FMMO positions proposed in the Dairy Security Act move in the wrong direction.

The Dairy Product Price Support Program (DPPSP) has also been harmful to the industry because when it operates U.S. domestic dairy product prices remain above the level necessary for us to be competitive in world markets. The Dairy Export Incentive Program (DEIP) uses government subsidies to underwrite exports sales—a policy that is inconsistent with our growing U.S. export platform. Both DPPSP and DEIP should be repealed and the available funding put to better use. But before we replace them, we need to consider which direction to take, as different policy reforms will lead in different directions.

We should adopt policies that position us to continue to compete in markets and to develop new products for an increasingly competitive marketplace here at home and abroad. This path requires less government regulation and new policies that will not provide an advantage to our competitors or encourage imports. If we choose this path, policy reform must address dairy farmers' need for risk management tools or insurance that allows them to succeed during periods of low net income.

Another approach would be to adopt policies that call on the Federal Government to intervene in dairy markets to balance supply with demand in an attempt to control price volatility. Under this approach, we concede competitiveness and growth for *status quo* and stability.

The Dairy Security Act offers the illusion of going both directions at once. In reality, it takes us down the second path. The centerpiece of that proposal is called the Dairy Market Stabilization program. The stated purpose of the program is the "balancing of the supply of milk with demand."

For anyone who supports and believes in the power of open markets, it is difficult, if not impossible, to support a program like Dairy Market Stabilization. The stabilization program is no less than a direct government intervention into commercial transactions in dairy markets. The program will periodically impose penalties on dairy farmers in order to limit milk supplies. The regulatory and enforcement mechanism will require new government regulations that will impact fundamental market negotiations between buyers and sellers of raw milk.

Increased input costs for dairy food manufacturers will mean increased prices on our grocery shelves for bottled milk and other dairy products. Consumers have a price threshold for milk. As prices increase, consumption of milk decreases. Bottled milk in particular is in a highly competitive marketplace for beverages. While milk offers more nutrient value, price matters and programs that increase prices will hurt milk sales and, in turn, decrease demand for milk production from dairy farmers.

This program is an unnecessary and costly intrusion into my business. By periodically raising prices, decoupling them from international prices, it will negatively impact our industry's ability to compete for international business. It will also impact our ability to maintain an adequate milk supply and make us an unreliable supplier. Our international competitors are delighted that we may help them, and undercut our own dairy industry, with a supply management program. They win and we lose.

Instead of making a policy choice between helping dairy farmers manage their business or having government manage prices for them, the Dairy Security Act attempts to do both. You can't have it both ways. On its own, the margin protection plan in the bill makes sense, until you look at the details that reveal that the reason for the stabilization program is to limit the usefulness of the margin protection program. If the dairy farm prices and margins are less volatile, as the proponents insist will be the case with Dairy Market Stabilization, then the need for dairy producers to enroll in the margin insurance program will be less or maybe even non-existent.

And, the programs will often work in opposition to each other with the margin protection program subsidizing farmers even as the stabilization program is reducing their milk checks and sending the difference to the government.

Everyone has heard that the solution is to make the program voluntary so no one needs to participate if they do not want to do so. That is incorrect. The stabilization program requires dairy processors to be responsible for tracking production and withholding payments from dairy farmers. If a dairy farmer participates in the program, the processor's participation is not voluntary. Dairy processors, who already must comply with safety and health regulations, not to mention existing milk pricing regulations, will have an entirely new set of government regulations to learn and manage.

We have also heard that the negative impacts on trade can be fixed by a provision that triggers the program off when it starts to impact prices. This provision is a frank admission that, contrary to claims of proponents, this program is a real threat to the competitiveness of the U.S. dairy industry in global markets. No government formula, or trigger adjustment, is going to change the fact that this new enforceable government policy on markets increases our business risk exponentially and will negatively impact all future decisions to invest into more U.S. facilities. There are U.S. capital investment decisions "on hold" because of the looming threat of supply management being in the upcoming farm bill.

Dr. Scott Brown's economic modeling says that dairy exports will not significantly decline under the stabilization program. Yet, how can he effectively model or predict how the bill would impact investment decisions by international companies like Davisco, Leprino or Hilmar? Triggering the program on and off will not fix the fundamental uncertainty of whether the United States will remain a competitive location for future production of our dairy exports. IDFA wants to export dairy products, instead of exporting jobs.

In the past few years, Dr. Brown has reported on several analyses of the Cooperatives Working Together (CWT) program that has operated without government intervention in our markets. A few years ago, Dr. Brown conducted an analysis that showed that the voluntary CWT program increased farm milk prices on average 47¢ per hundredweight of milk. Why are we talking about a new intrusive government program that Dr. Brown's new analysis shows only increases the price of farm milk by 5¢?

Members of this Committee are also being told that there is not any legitimate alternative to government control over milk supplies and government manipulation of milk prices. But, margin insurance, also proposed in the Dairy Security Act, can easily be provided without imposing a supply management program on the dairy industry. Just this week, Senator Bennet of Colorado proposed such a stand-alone insurance program funded with modest producer premiums like other crop insurance. IDFA believes that providing additional risk management tools to dairy farmers without supply management should be the goal and we support the Bennet proposal as one way to achieve this.

We are aware of the budgetary pressures on Congress to limit spending, but before imposing a supply management program on my industry, the Committee should consider rebalancing the support it provides to each agriculture sector. The dairy "baseline" averages about $43 million over the next 10 years and this year only $7 million was allocated to subsidize dairy insurance programs. Yet, crop insurance alone is expected to cost taxpayers over $10 billion this year and somehow the agriculture committees are still finding available funds for "shallow losses" and other Title I support for feed grains and the rest of agriculture. Dairy producers account for nearly 10% of all farm receipts, yet clearly they are not getting a fair allocation of farm safety net resources for catastrophic revenue protection because this Committee has decided to make funding decisions based upon historical precedent instead of need.

Although programs like stabilization may be new concepts to some of the Members of the Committee, it is an old idea that has been rejected not only around the world but in our country as well. Efforts to have government manage milk supplies, such as the whole herd buyout and assessments on dairy farmers, were tried in the 1980s and were quickly abandoned. Acreage set asides were abandoned decades ago as were peanut and tobacco quotas. Of the major commodities, only sugar is managed by the government, but our sugar industry is protected by high tariffs and we don't export it.

There are many producers, and several producer groups, that oppose dairy supply management and the stabilization program. They deserve to be heard by this Committee. Dairy supply management would be a major new policy direction for our industry and is highly controversial. Our nation's second largest dairy co-op, California Dairies, is opposed to the stabilization program. Other progressive producer organizations like the Wisconsin Dairy Business Association, Minnesota Milk Producers Association, the Northeast Dairy Producers Association and the Dairy Policy Action Coalition are opposed.

IDFA is constantly told that it is not enough to oppose proposals, but that we must develop our own. In fact, we adopted a lengthy policy proposal approximately a year ago which has since been widely available on our website. Although it may have been advantageous to posture that our government should eliminate all dairy programs, we have instead tried to identify and support responsible, middle-ground compromise positions that help dairy farmers. IDFA supports the Bennet amendment and will gladly work with Members of this Committee to develop programs that help dairy farmers through difficult times.

Conclusion

IDFA's members believe that a healthy and growing U.S. dairy industry benefits farmers as well as processors, and does not penalize consumers of dairy products. 2009 was indeed a bad year for many dairy farmers but it was also a bad year for many dairy food companies, and millions of Americans, as well.

Dairy policy reform should not include a supply management program which purports to help dairy farmers but places a heavy burden on dairy product consumers in a year like 2009 when they were also in need. Dairy producers should have catastrophic margin insurance and other risk management tools available to them to be ready for the next down turn in milk prices and an increase in feed costs.

The Dairy Security Act will harm a growing dairy export business and will discourage investment into more domestic processing facilities. It will decrease domestic demand for milk and will ultimately harm dairy farmers as much as it does dairy food companies.

IDFA believes it is time to decrease regulations in a highly regulated industry. We support policy initiatives that will help the industry grow, not only through increased consumption and product innovation here in the United States, but by taking advantage of new and growing export opportunities.

There are clear and better alternatives to the Dairy Security Act that offer a positive path forward for the U.S. dairy industry. Margin protection, without being tied to limits on milk production, would help dairy farmers without the negative consequences of supply management. This Committee should offer dairy farmers the tools they need to manage volatility but should not attempt to manage that volatility for them.

The CHAIRMAN. Thank you, Mr. Davis.

Mr. Kozak.

STATEMENT OF JEROME J. KOZAK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL MILK PRODUCERS FEDERATION, ARLINGTON, VA

Mr. KOZAK. Good afternoon, Chairman Rooney, Ranking Member Cardoza, and other distinguished Members of this Subcommittee. Thanks for inviting National Milk Producers Federation to participate today.

We all know that farming is a cyclical business. We have seen significant downturns in 2003, 2006, 2009, and we are now experiencing one in 2012. Simply put, America dairy farmers cannot afford to keep riding this roller coaster. We need a better safety net for dairy farmers that addresses both low milk prices and high input costs. Collectively, dairy farmers lost $20 billion in hard-earned equity between 2007 and 2009. That is why this process has such high stakes not only for our dairy producers but for all of those who are financially connected to the dairy farming community.

I would like to discuss the extensive grassroots process that led to the creation of the Dairy Security Act. In 2009, National Milk reached out to Members, other dairy organizations, regional and national farm groups, all of us collaborating together looking at a new safety net. Ultimately, when we had some good ideas on paper, we took that proposal and we field-tested it with dairy farmers by holding cross-country listening sessions in 12 states last summer. Nearly 1,500 dairy farmers gave us their input at those regional meetings. These ideas were eventually transformed into the Dairy Security Act by Mr. Peterson and Mr. Simpson. This package is proactive, it is budget-conscious and it fixes the long-term challenges that our current safety net can't address.

The Dairy Security Act is the consensus choice of virtually all farm organizations. This is an unprecedented level of support for making these needed changes. DSA isn't a continuation of the failed policies of the past. It eliminates the Product Price Support, MILC and Dairy Export Incentive programs. Ending these programs saves precious farm baseline dollars to invest in a new and relevant safety net.

The primary focus of DSA is the crucial margin between milk prices and feed costs. It isn't a guarantee of success or profits, and it doesn't raise consumer prices. It merely reduces volatility, and frankly, this benefits not only farmers but processors and consumers alike. This is not a Canadian-style quota system. It doesn't insulate our farmers from the real world. It will not diminish the availability of milk. Farmer-owned cooperatives operate nearly 200 dairy processing and manufacturing facilities all across this country. We wouldn't support a program or they wouldn't support a program that would hurt their own processing facilities, and this is not a mandatory system. It is voluntary. The farmer has a choice to either accept the free basic margin insurance as well as a subsidized supplemental insurance in which they share the cost with the government, or they can forego government assistance and not be subject to the DMSP. It merely sends timely signals to allow producers to take the kinds of actions to adjust their production or do nothing but contribute to a fund to purchase dairy products for direct use by USDA and provide that food to food banks and feeding programs at a time when supply exceeds demand.

The Market Stabilization Program also contains triggers so that it does not activate when the world price and the domestic price are out of alignment. It might hurt our ability to export our products. Dairy farmers fund the U.S. Dairy Export Council out of their check-off funds. Dairy farmers fund the Cooperatives Working Together Program that National Milk administers through their own check-off program, and we have invested nearly $100 million since

2003. So why would we support a program that would negatively impact all of those producer dollars?

DSA treats all farmers equally, and it finally eliminates the regional fights of the past and puts all farmers on equal footing. It allows farmers to better manage their risk. It is simple, it is affordable and it is convenient.

So let me close with the summer grassroots tour we conducted last year. I was heart struck by one young couple in Wisconsin who nearly lost their farm in 2009, and I stood there with their three children looking at me and they said, "Jerry, we need to help change the system, we are counting on you. Our present system doesn't work. We enjoy our life on the farm and we are proud to produce milk. All we want to do is to be able to take our family out for a pizza every once in a while and we will feel blessed." That is what is at stake here today: the livelihood and the future of our hardworking dairy farm families all across this country who help not only feed our people but maintain the strongest dairy production system in the world.

Teddy Roosevelt once said, "In any moment of decision, the best thing you can do is the right thing," and our dairy producers deserve and need the right thing, and the Dairy Security Act is our best chance to get it right. Thank you.

[The prepared statement of Mr. Kozak follows:]

PREPARED STATEMENT OF JEROME J. KOZAK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL MILK PRODUCERS FEDERATION, ARLINGTON, VA

Introduction

Chairman Rooney, Ranking Member Cardoza, Members of the Committee, I am Jerry Kozak, President and CEO of the National Milk Producers Federation (NMPF), a trade organization that represents 30 dairy cooperatives with over 30,000 dairy farmer members who produce and market 60% of America's milk. I am testifying on their behalf as well as the overwhelming majority of producers all across this country.

The dairy industry has changed a great deal since current dairy policies were initially put in place. Milk price volatility has increased since the early 1980s as the government has largely removed itself from supporting the farm-level price of milk. The price of feed has become much more volatile as well since the middle of the past decade. Growing world demand for dairy products has created both opportunities and new challenges for the U.S. dairy industry as well, especially in the area of commodity volatility throughout the food chain.

These elements have resulted in a much more volatile dairy business environment in recent years, which will continue in coming years. They came together in late 2008 in a perfect storm-like situation, and resulted in the 2009 financial disaster that many of America's dairy farm families experienced. The dairy crisis of 2009 showed conclusively how inadequate current dairy policies are, not only in dealing with the unusual combination of circumstances that occurred in 2009, but in addressing less dramatic financial pressures as well.

The inadequacy of these policies resulted in National Milk's membership embarking on an extensive and inclusive grassroots process to determine how to provide the best safety net possible for dairy farm families.

The Creation of "*Foundation for the Future*"

After forming a strategic planning task force in the summer of 2009 that included representatives from member and nonmember cooperatives, NMPF's task force met with dairy producer groups from across the country to gather their input on what was needed.

Following this 2 day session, the task force appointed subcommittees to address three areas: protecting producer equity, reducing volatility, and assessing the mechanics of how milk is priced. It was out of these producer-driven subcommittees (meeting numerous times over a period of 18 months) that the policy package we named "*Foundation for the Future*" evolved.

Just as multiple problems contributed to an unprofitable situation for U.S. dairy farms recently, multiple solutions are required to achieve a more prosperous future. To meet this need, *Foundation for the Future* offered a multi-faceted approach by: (1) replacing existing Federal safety net programs; (2) creating a new Dairy Producer Margin Protection Program to protect against the severe and unsustainable loss of margin; and (3) establishing a Dairy Market Stabilization Program to help address periodic imbalances in dairy supply and demand.

The next step in the process was to meet with dairy farmers across the country to present the *Foundation for the Future* program, and obtain their feedback.

Over a period of 42 days, 13 meetings were held in 12 cities, from Visalia, California to Syracuse, New York, and nine other cities in major dairy areas in between. The input received from these sessions resulted in the changes to the *Foundation for the Future* proposal presented to Ranking Member Peterson.

At the end of last summer, Rep. Peterson and Rep. Simpson formulated the Dairy Security Act, H.R. 3062.

The Need to Replace Current, Inadequate Dairy Programs

The Dairy Security Act (DSA) calls for three current dairy programs to be terminated and, in their place, a new safety net program to be implemented based on the concept of managing dairy producer risk while reducing margin volatility.

The Dairy Security Act discontinues the Dairy Product Price Support Program (DPPSP), the Milk Income Loss Contract (MILC) program, and the Dairy Export Incentive Program (DEIP). Instead, DSA proposes to use the budgetary savings in the Federal dairy baseline to establish the Dairy Producer Margin Protection Program, as described further in this document.

Ending the Dairy Product Price Support Program

The Dairy Price Support Program was created in 1949 as a means to help provide government support for farm-level milk prices. During most of its lifespan, the program targeted a set milk price, and then established pricing targets for Federal purchases of key products, such as cheese, butter and non-fat milk powder, that would help support that milk price.

In the 2008 Farm Bill, the program was altered to support specific products, ending its focus on a singular milk price, and targeting specific product price levels. Regardless of its function, however, NMPF believes it is now time to end the DPPSP and shift resources toward a new Federal safety net, for the following reasons:

1. It supports dairy farmers all around the world and disadvantages U.S. dairy farmers.

The current program helps balance world supplies by encouraging the periodic global surplus of milk products to be purchased by U.S. taxpayers. As a result, dairy farmers in other countries, particularly the Oceania region, enjoy as much price protection from the DPPSP as our own U.S. farmers. Without the USDA's Commodity Credit Corporation (CCC) buying up occasional surpluses of dairy proteins in the form of nonfat dry milk, a temporarily lower world price would affect America's competitors, all of whom would be forced to adjust their production downward and ultimately hasten a global recovery in prices.

2. It reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.

The price support program effectively reduces U.S. exports, by diverting some of the U.S. milk flow into government warehouses, rather than to commercial buyers in other nations. It creates a dynamic where it is more difficult for the U.S. to be a consistent supplier of many products, since sometimes the domestic industry has products to export, and at other times, the domestic industry just sells to the government.

3. It disincentivizes product innovation.

The DPPSP distorts what the U.S. produces—for example, too much nonfat dry milk, and not enough protein-standardized skim milk powder, as well as specialty milk proteins, such as milk protein concentrates—that are in demand both domestically and internationally.

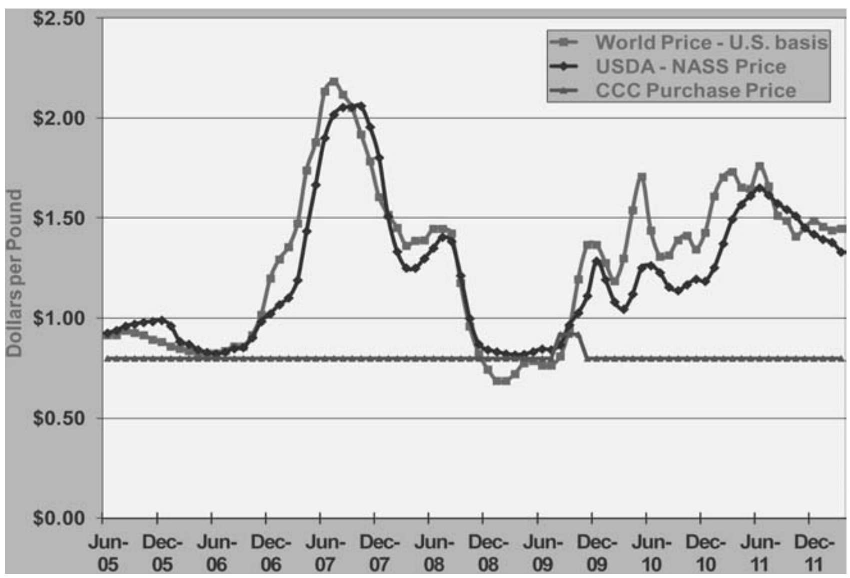
Because the price support program is a blunt instrument that will buy only nonfat dry milk (from among the many types of dairy powders made from milk) and because some plants have been specifically built to produce only nonfat dry milk, it puts the U.S. at a competitive disadvantage with respect to other global dairy vendors.

4. It isn't effectively managed to fulfill its objectives.

Although the DPPSP has a standing offer to purchase butter, cheese and nonfat dry milk, during the past 12 years, only the last of that trio has been sold to the USDA in any significant quantity. In essence, the product that the DPPSP really supports is nonfat dry milk. Even at times when the cheese price has sagged well beneath the price support target, cheese makers have chosen not to sell to the government for a variety of logistical and marketing-related reasons. NMPF has tried to address these problems, but the USDA shows no inclination toward facilitating greater purchases of product by recognizing the additional costs required to sell to government specifications such as specific sizes and packaging types. Once purchased, nonfat dry milk powder returning back to the market from government storage also presents challenges, dampening the recovery of prices as evidenced in **Chart 1.**

Chart 1

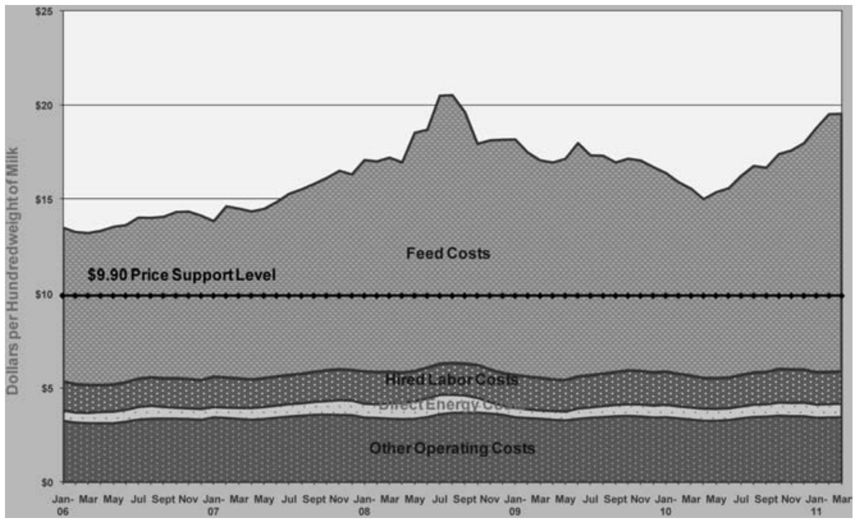
U.S. and World Prices—SMP/NFDM



5. It seeks to achieve price levels that are no longer relevant to farmers. Even though the $9.90 per hundredweight target was eliminated in the last farm bill, the individual product price support targets—$1.13 per pound for block cheese, $0.85 for powder, and $1.05 for butter—will essentially return Class III and IV prices around $10 per hundredweight. In an era of higher costs of production, that minimal price isn't acceptable in any way, shape or form as the following chart so clearly demonstrates. As shown on **Chart 2,** the effective price support level has been considerably less than the cost of production for many years. The government is not at all likely to raise the support prices (which would have negative consequences both for the burgeoning Federal deficit, as well as our trade treaty limitations), and even if it did, the industry would likely experience continued delays in the recovery of prices when the program is most needed.

Chart 2

Price Support Level and Costs of Production, 2006–2011



Source: USDA Economic Research Service.

In summary, discontinuing the DPPSP would eventually result in better returns for U.S. dairy farmers. By focusing on indemnifying against poor margins, rather than on a milk price target that is clearly inadequate, the industry can create a more relevant safety net that allows for quicker price adjustments, reduces imports and facilitates exports. As a result of the present DPPSP, the U.S. has, in effect, become the world's balancing plant. As time marches on, so, too, must our approach to helping U.S. dairy farmers.

Ending the Milk Income Loss Contract (MILC) Program

The MILC program is a price-based safety net, which is as ineffective for today's dairy producers as the Dairy Product Price Support Program. In 2008 and 2009, MILC proved to be an inconsistent safety net program for dairy farmers facing very low, or even negative, operating margins. MILC, despite its feed cost adjustor, does not adequately offset high feed costs and its price target does not track national farm milk prices.

The triggering of an MILC payment is dependent on a low milk price. If milk prices are at average levels and feed costs are high, farmers can suffer substantial losses and still not receive any assistance from MILC. Although a feed cost adjustor was added in the 2008 Farm Bill, this program does not go into effect until the price of the National Agricultural Statistics Service (NASS) standard feed ration reaches $147 per ton (equivalent, for example, to $3.75 per bushel of corn, $9.50 per bushel of soybeans, and $130 per ton of alfalfa). It also only covers about 30 percent of the feed price increase above this high level. This was clearly inadequate through most of 2008, when high feed costs overwhelmed average milk prices and put most farmers into a deep hole without the help of any MILC payments. The current feed ration utilized in the MILC has not been sufficiently updated to reflect today's current dairy farm feeding practices. On the other hand, the Dairy Producer Margin Protection Program recommends utilizing a new feed ration reflective of the entire dairy feeding enterprise at the farm level.

The MILC target price is a Class I price. Class I is currently based on the "higher of" Class III or IV prices, so when the Class IV (butter/powder) price or the Class III (cheese) price is high, MILC payments can be low or zero, even if producers are facing low margins.

The MILC program is inequitable in its treatment of dairy farmers and, therefore, ineffective in its objective of providing economic relief to dairy farmers in their time of need. Requiring producers who market more than 2.985 million pounds of milk a year to guess in which of the coming twelve months they will most likely need economic assistance is why it is ineffective. Limiting the level of protection to a maximum of 2.985 million pounds of milk a year provides a safety net for less than

30 percent of the total milk produced in the U.S. A basic principle of the Dairy Security Act is that all farmers should be treated equally regardless of size or region.

As dairy farmers face growing volatility in both their feed costs and their milk prices, the milk price-based dairy producer programs are no longer adequate or efficient. As evidenced significantly in 2009, the MILC program does not provide an effective safety net for dairy producers. It is for these reasons that the DSA recommends discontinuing the Dairy Product Price Support Program (DPPSP) and the Milk Income Loss Contract (MILC) program in the next farm bill and using the budgetary savings in the Federal dairy baseline to establish the new Dairy Producer Margin Protection Program as described next in this document.

Ending the Dairy Export Incentive Program (DEIP)

Intended to help expand the sales of U.S. dairy products into world markets, the program has been used instead as an adjunct to the dairy price support program. As such, it was only made available in a very limited way after the price support program began purchasing and storing dairy products.

Instead of expanding world markets for U.S. dairy products which requires a long-term commitment to serving those markets, the U.S. Government has only used DEIP either in response to heavy European subsidization of dairy exports or as an alternative to storing products under the price support program. The program generates a baseline cost without providing any consistent, meaningful return to the U.S. dairy sector.

The Need for the Dairy Security Act of 2011

The Dairy Security Act replaces these three ineffective programs with two that are designed to work together to prevent the catastrophic loss of a farmer's hard-earned equity. They are the Dairy Producer Margin Protection Program (DPMPP), and the Dairy Market Stabilization Program (DMSP).

1. The Dairy Producer Margin Protection Program (DPMPP)

The Dairy Security Act's Dairy Producer Margin Protection Program (DPMPP) is intended to support producer *margins,* not prices. DPMPP is a program that is designed to address both catastrophic conditions, which can result in the severe loss of equity for dairy farmers, such as those witnessed in 2009 as well as long periods of low margins, such as those experienced in 2002.

Under this program, "margin" is simply defined as the All-Milk Price minus feed costs. Feed costs are determined by using a new feed ration that has been developed to more realistically reflect those costs associated with feeding the entire dairy farm enterprise including milking cows, heifers, *etc.* The DPMPP operates on the premise of providing a basic level of protection for all producers and a voluntary supplemental coverage. The basic coverage is fully-subsidized by the Federal Government (as was the case with the DPPSP and MILC), while the supplemental coverage is voluntary and premiums are partially subsidized by the government, but in a manner in which the level of subsidization decreases as the level of coverage per hundredweight increases.

When the margin falls below $4.00 per 100 pounds of milk for consecutive 2 month periods, producers who sign up for the program receive the difference between $4.00 and the actual margin. This is paid on their actual milk production for the 2 month periods the program is in effect, not to exceed 80% of 1⁄6 of their highest annual milk production for the 3 years prior to the program being enacted.

Producers will have the option of buying additional coverage above the $4.00 catastrophic level of coverage, up to an additional $4.00 per hundredweight on 90% of their prior year's annual milk production. They can also insure the annual growth, if any, in their milk output, so that if these farmers choose to expand production, they have some downside protection for that growth.

The program is voluntary. Every producer has a choice: to take advantage of the margin protection program, or not. The basic $4.00 catastrophic coverage has no premium. A producer signs up once and he/she is covered on 80% of their historic milk production for up to $4.00 of margin protection.

The DPMPP is intended to be a Title I program operated by the Farm Service Agency (FSA).

2. Dairy Market Stabilization Program (DMSP)

As a voluntary program, the DPMPP has an associated requirement—a condition of participation in DPMPP is participating in the Dairy Market Stabilization Program (DMSP).

The purpose of the DMSP program is to make what occurs naturally in the marketplace occur sooner and faster and reducing price volatility to the benefit of producers, processors and consumers. It also reduces that cost of the margin program resulting in savings compared to current dairy programs.

As with the Dairy Producer Margin Protection Program, the DMSP will be driven by margins and calculated in the same way. Under the DMSP, when the national average margin on milk drops to certain levels, producers would receive payment for the greater of a percentage of their established Base Milk Marketings or their current milk marketings. While the milk may still be picked up and processed, payment for the milk above the specified percentage of marketings would go from the processor to the USDA, which would use the funds to purchase dairy products for food assistance programs.

Participating producers would choose whether their Base Milk Marketings would be the average milk marketed over the 3 months immediately prior to USDA announcing that the program is going into effect, or the milk marketed during the same month in the previous year for each month the DMSP is in effect.

The program triggers in:

- When the national margin is $6.00/cwt. or less for 2 consecutive months, producers would be paid for the greater of 98 percent of their Base Milk Marketings or 94 percent of their current milk marketings.
- When the margin is $5.00/cwt. or less for 2 consecutive months, producers would be paid for the greater of 97 percent of their Base Milk Marketings or 93 percent of their current milk marketings.
- When the national margin is $4.00 or less in a single month, producers will be paid the greater of 96 percent of their Base Milk Marketings or 92 percent of their current milk marketings.

Once triggered, the program would remain in effect until the national margin exceeds the $6.00/cwt. level for 2 consecutive months.

The simple fact of the matter is that dairy farmers and the cooperatives they own bear the burden of balancing the supply of milk with processor demand for that milk. For example, during the Christmas holidays when schools are closed, dairy farmer cooperatives are the entities responsible for handling the milk that is being produced so it is available when schools start up again. Likewise, when the worldwide recession hit in late 2008, and U.S. exports of dairy products fell by over 30%, dairy producers and their cooperatives had to handle the surplus milk that suddenly appeared.

Had the Dairy Security Act been in place in 2009, producer margins would have turned around 7 months sooner than actually occurred and saved billions of dollars in dairy farmer equity.

The DMSP program is entirely voluntary and its purpose is the same: to alleviate as quickly as possible the financial burden excess milk production puts on dairy farmers and dairy cooperatives.

Yes, the possibility of the DMSP program temporarily impacting dairy farmers who want the protection of the DPMPP is a condition tied to the margin protection program. And, a producer has the option of reducing milk production under the DMSP program, *but is not required to do so.*

If the farmer chooses not to reduce production should the DMSP program go into effect, then the producer is not paid for a small portion of the milk he or she marketed. That money is deducted from producer milk checks and sent to USDA to buy dairy products from processors and manufacturers for direct donation to organizations that feed the needy.

NMPF's own economists looked back at the period from 2001 to 2010 using the same DMSP provisions and found that the program would have only been activated twice in 2009. This is hardly the intrusive program opponents claim it would be.

Those same voices have argued that the U.S. will lose its ability to export under this program, and will regress into a globally uncompetitive dairy sector. As a result of discussions with trade experts and feedback from companies exporting U.S. dairy products, the DMSP incorporated a series of qualifiers that would prevent any reduction in domestic supply of milk if the U.S. and world prices misaligned. The DMSP program is suspended not only when margins are above S6.00 for 2 consecutive months, but also when U.S. cheddar or NFDM price is equal to or higher than the World price for 2 consecutive months even when margin is less than $6.00. The DMSP program is also stopped if the margin is between $5.00 and $4.00 and U.S. cheddar or NFDM price is 5% or higher than the world price or when the margin is $4.00 or less and U.S. cheddar or NFDM price is 7% or higher than the World price for 2 consecutive months.

Farmers who are spending millions of dollars a year funding both the Cooperatives Working Together (CWT) program and the U.S. Dairy Export Council take umbrage at that allegation. In fact, U.S. dairy farmers are aware of the importance of global marketing, and were mindful of that importance as the DMSP was developed. Some of the key principles that guided the development of the DMSP include:

- *Allow for production growth.* The program is intended solely to intervene in the market to address temporary imbalances between supply and demand. The program will send clear economic signals to producers if there is an imbalance in the marketplace, but it will still allow milk production to grow.
- *Reduce margin volatility.* The program's ultimate objective is to restore balance between supply and demand in the marketplace for milk. By encouraging producers to lower their milk marketings at appropriate times, prices will rise, thus improving margins to more reasonable levels.
- *Keep government intervention at a minimum.* The legislation establishing the program will set the parameters that put it into effect. USDA's role will be limited to determine the actual monthly margin and to collect potential farmers' contributions.
- *Not encourage imports or discourage exports.* Global and U.S. markets must maintain a strong correlation. Such correlation will allow domestic inventories to clear faster, encourage exports, discourage imports, and help ensure that market downturns *are of shorter duration.*

Conclusion

Mr. Chairman, Committee Members, there has never been the level of consensus within the U.S. dairy producer community as currently exists in support of the Dairy Security Act. In addition to the member cooperatives of NMPF, the following organizations support the DSA:

- American Farm Bureau Federation
- National Council of Farmer Cooperatives
- National Farmers Organization
- Holstein Association USA, Inc.
- Milk Producers Council of CA and a majority of other state dairy producer associations

These organizations support the DSA because it is a package that addresses the concerns they have had regarding future dairy policy:

- The program is voluntary. Every producer can choose whether they want the protection offered by the DPMPP recognizing that they are then subject to the provisions for the DMSP program.
- The margin protection program provides participating dairy farmers with a basic safety net against catastrophic equity loss and the option of purchasing additional margin protection above the basic level.
- The DMSP program signals producers well in advance of declining margins reaching catastrophic levels and allows them to choose to adjust production, or do nothing and have a small percentage of their milk check fund purchases of dairy products for use by the nation's food banks and feeding programs.
- DMSP contains a number of safeguards to ensure that the program doesn't trigger in and negatively impact the dairy industry's ability to export.

DSA also begins transitioning dairy farmers to being better able to manage their business risk in a deliberate, planned approach that provides a better safety net while reducing government involvement and positioning our industry to better compete in the growing global dairy marketplace. The program also complements private sector risk management tools, such as the use of futures markets and forward contracting. Indeed, it will help expose dairy farms of all sizes to the concept of using such tools to help better protect them from increased volatility.

Criticism of the Dairy Security Act from commercial milk buyers alleges that it will restrict milk production, raise consumer prices, and negatively impact exports. We believe these allegations are clearly ill-founded and based either on insufficiently robust or incomplete economic analysis at best or pure conjecture at worst. Additional analysis can be expected to reinforce the fact that these concerns are clearly without merit.

In addition, with respect to fears about a reduction in U.S. dairy exports, it is important to note will not restrict milk production, raise consumer prices, or negatively impact exports. It is important that the Committee be aware that America's dairy farmers have long recognized the importance of export markets. As mentioned previously, for 16 years they have funded the U.S. Dairy Export Council through the promotion deduction from their milk checks. Dairy farmers producing 70% of the nation's milk have funded the Cooperatives Working Together Export Assistance program which has invested nearly $100 million since 2003 helping members sell 427 million pounds of cheese, butter and milk powders to 30+ countries on four continents. Why would NMPF support a program that would negatively impact the investment of all those producer dollars?

The DSA changes the *status quo* by eliminating the current ineffective government dairy programs, and provides participating dairy farmers with a much better safety net, while reducing spending on dairy programs by precious millions of dollars in the dairy baseline.

It treats all farmers in all regions equally. It does not raise consumer prices nor negatively impact exports, while addressing the wild price swings that have plagued producers and processors in the past. It allows an orderly transition to a new era whereby dairy farmers manage their risks and creates a solid safety net for farmers.

Importantly, we have to remember that protecting against the erosion of dairy farms and a domestic milk supply is critical to our nation's food security. We can't take this for granted. Off-shoring our food production is not in the best interests of our national security, but is a real possibility if we don't have better tools to manage price volatility and prevent the loss of more dairy farms.

The commodity titles of the farm bill exist to ensure that we always have the ability to feed ourselves. The dairy title should be about giving our dairy farmers the tools they need to protect and preserve their business operations so they can weather difficult times and give them a reasonable chance to continue to produce a safe and nutritious product for our consumers.

We respectfully urge you to include the Dairy Security Act in the next farm bill. It offers a far more responsive protection for our farmers' hard-earned equity than the system we have today. Our dairy producers deserve and need the right thing, and the Dairy Security Act is our best chance to get it right.

Thank you.

The CHAIRMAN. The chair would like to thank the witnesses for their statement, and also would like to remind Members that they will be recognized for questioning in the order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of their arrival. I appreciate the Members' understanding.

Additionally, the gentleman from California, Mr. Costa, who is not a Member of this Subcommittee has joined us today, I have consulted with the Ranking Member and we are pleased to welcome him to join in the questioning of witnesses.

I will now recognize myself for 5 minutes to begin the questioning. This question goes to Mr. Wright and Mr. Barcellos. If you would, how critical is it to producers in your region that the supply management component of this package be voluntary, as Mr. Kozak pointed out? Are there producers in your regions whose business models would lend themselves to participation in this program?

Mr. WRIGHT. Let me respond first. We would be making more noise than Mr. Davis if this were mandatory. The the only reason we can live with the Dairy Security Act is the voluntary nature of supply management. Mr. Kozak mentioned field hearings. When National Milk came down to visit, our people were standing up shouting at him, "Jerry, do you really think we ought to do dairy supply management in Florida? Are you telling us not to dairy?" I mean, it is that critical. We don't think a mandatory supply management can work for the Southeast. We think it would penalize us. We think it would expedite the exodus of milk production in the Southeast. You know, estimates are hard. I know, I have read economic analysis. Sitting where I am today, if this becomes law, I would be surprised if over 25 percent of our milk would sign up for the program because of the supply management provisions. I think a lot of people—and it would vary. Large producers and rapid growth would go to the private market for the margin protection. Smaller producers or low-debt producers would say I will basically self-insure the down markets. So I do see some highly leveraged operations that maybe the only way they can get credit is their banks insist on signing up, but I do not think there will be a very high participation rate in the Southeast.

Mr. BARCELLOS. Mr. Chairman, I would echo the concern about mandatory *versus* voluntary. California has quite a variety of dairy styles, everywhere from 50 cow pasture herds, some organic and others that might extend into the 5,000 or 6,000 cow confined facilities. There are producers that are on rented places, some that are on owned places. There is such diversity that one-size-does-not-fit-all, and the voluntary aspect of it would be about the only way you can get support from California producers.

The CHAIRMAN. Mr. Davis, do you want to weigh in on that?

Mr. DAVIS. Certainly. I appreciate in the rules it is voluntary but it isn't voluntary for a processor because if you have one of your producers that signs up for it, you are now basically in it because you have to manage it and report it and do all those auditing functions. In addition to that, I would think especially after 2009's equity burn that Jerry described and a few others described and I concur with, I really believe it happened, bankers are much more of an important part of dairy farmers' lives than they were before that equity burn. Can you imagine a banker lending money to a dairy farm business and saying—telling him not to sign up for supply management and the insurance market? They would never take that chance of not having some type of safety net. So what you are doing is forcing that lender to tell his dairymen you have to sign up for the insurance program, and once he does that, he has to sign up for supply management, and that just doesn't make any sense to us.

The CHAIRMAN. Mr. Kozak?

Mr. KOZAK. Obviously we don't agree with that. In fact, one of the things that we did in this 2½ year process that we have been—this has been evolving is, we met with the bankers and lenders and other types of farm credit institutions about this program. I must tell you, we were very favorably received, and the issue still is—and I understand what Mr. Wright and Mr. Barcellos said—that is, it is voluntary. And I don't find this unique because if you look at some of our other government programs, let us just take a look at disaster assistance. In order for you to receive *ad hoc* disaster assistance, you have to sign up for crop insurance, and there are many other issues where you have to comply with certain provisions, and in this case, the dairy farmer is actually getting a free margin just for signing up provided by the government. Then they are getting a supplemental rate that is fairly attractive in order for them to manage their market. I don't think that most dairy farmers object to the fact that if they are going to take that assistance, that as citizens they have to have some idea of dealing with the rest of the community and the impact of those communities.

The CHAIRMAN. Thank you.

I would now like to recognize the Ranking Member, Mr. Cardoza, for 5 minutes.

Mr. CARDOZA. Thank you, Mr. Chairman.

I would like to ask the witnesses that I am going to ask these questions to please keep their answers very concise, and I am going to start with Mr. Barcellos from Western United Dairymen. You mentioned producers having choices on Milk Marketing Orders. What are some of the concerns among farmers about the Federal Order for California? Do you believe California producers would be better off if they joined the Federal Orders or worse off?

Mr. BARCELLOS. California has a quota and standards that are higher than Federal. We also are concerned about depooling. In Federal Orders, they can depool anytime, and California is limited to 12 months at a time. If prices were the same, we would have to take transportation from California to meet—get it into the Midwest or the East, and we are a manufacturing state so we are looking more to doing export, and the fact that we have California pooling, CDFA managed, we can be very responsive. We had a hearing called for in March and we will have a response and a decision by August, so we are looking at the fact that it responds quickly.

Mr. CARDOZA. Mr. Barcellos, can you explain a little more about the impact of voluntary reductions currently in place in California that they might have if a market stabilization plan is put in place?

Mr. BARCELLOS. The stabilization payments made on overproduction now are going to—or the stabilization plan as it was written previously, the payments would have gone to the Federal deficit reduction, and currently, we are supporting the process where that excess overpayment would be used for feeding programs that would benefit the communities.

Mr. CARDOZA. Dr. Brown, there has been a lot of concern about the impact of this program on exports. Again, can you talk about the impacts of this program and what they would have on exports? Do you feel that these concerns about the stabilization program damaging the export markets are well founded, given the results of your study?

Dr. BROWN. Certainly. So, number one, when we look at the effects of market stabilization on trade, it is important to understand the parameters of market stabilization and how often it operates. I go back to look at the analysis that I have done and only roughly 7½ percent of the time do we see DMSP would be in operation, so a pretty small percentage of the time. In addition, given the United States-to-world price triggers that are in place, it tends to trip the program back out fairly rapidly, so the combination of those things certainly doesn't suggest that we are limiting milk supplies to a large extent relative to the baseline that I was using. So in general, we are talking about less than a two percent decline in things like nonfat dry exports in the most biting phase of the DMSP operations.

Mr. CARDOZA. So your study finds it won't really have that much of an effect most of the time and at most it will have a one to two percent effect?

Dr. BROWN. Correct, and again, it is because of the trigger levels that we have and the fact that we would expect the baseline margins to be well above the trigger points for DMSP.

Mr. CARDOZA. Thank you. One item in your report that caught my attention was that milk price will decline very slightly. Can you talk a little bit more about that, and didn't the same thing happen when MILC payments were first made?

Dr. BROWN. I think certainly any time that you are going to make payments to producers in any type of government program, you are putting more money into their pocket, in aggregate, we are going to get some supply response from that. If you look back to the original MILC discussion of the 2003 debate, we certainly talked about the fact that we were going to see some lower milk prices from the fact you are making payments. I think there is another case where as we make payments under the Dairy Producer Margin Protection Program, it will have a slight negative drag on milk prices. Again, the triggers are important here. We don't expect margin protection to trigger very often as well so the effects on milk prices are pretty small relative to the baseline.

Mr. CARDOZA. Thank you.

Mr. Davis, obviously as you mentioned, the stabilization provision is a major concern for you and IDFA. Has IDFA analyzed a model of the stabilization program in the current proposal to determine how frequently and for how long it would trigger?

Mr. DAVIS. They have, and one of the things that it is tough to model is, you have to predict that future decisions will be the same as past decisions, which is what Dr. Brown did, and future decisions by our dairy buyers, overseas dairy buyers, are going to be different if we have a supply management program *versus* if we don't.

Mr. CARDOZA. Would you please provide me with that analysis and provide it to the Committee for the record? And would you also provide how you can justify the last statement that you just made?

Mr. DAVIS. How I can justify the last statement?

Mr. CARDOZA. Yes. I mean, you made an assertion that things in the past won't be the same as things in the future because people are going to make different decisions. That is a supposition that I am not sure is supported, and I would like to see what backs up——

Mr. DAVIS. All I can—excuse me. All I can do is through anecdotal conversations I have had with buyers already, and——

Mr. CARDOZA. I know, but we can't make policy on anecdotal conversations. What we need is some kind of analysis, and Dr. Brown has provided that kind of historic analysis, and I am afraid that we can't build policy on that kind of an anecdotal information. If you have something that will support your position, we are glad to see it.

Mr. DAVIS. I don't have a statistical survey that will say the buyer will buy elsewhere. I just have what they tell me.

[The information referred to is located on p. 1922.]

Mr. CARDOZA. Mr. Kozak, Mr. Davis pointed out that we are currently exporting 13 percent of our milk production. He claims that this proposal threatens the export business. You can respond to that.

Mr. KOZAK. First of all, let me offer our economic analysis that we did on the market stabilization. We had our staff economists go back and look at how many times the market stabilization program would have kicked in or triggered in over a 10 year period. It would have kicked in twice for 3 months and they would have been in 2009, and we would be happy to provide that analysis. In fact, it may have been part of our written testimony.

In terms of exports, as you can understand from my remarks, we fund both the U.S. Dairy Export Council through producer checkoffs and the CWT program. Last year, 79 percent of all the American-style cheeses were supported by the CWT Export Program, and that has a tremendous impact. Dr. Brown's figures are pretty good. They mask the things that we have been looking at, and I don't see in any shape or form that we are going to have some negative impact on exports. Certainly, that is a significant portion of why we did this program.

Mr. CARDOZA. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. The chair would now like to recognize the former Ranking Member of this Committee from Texas, Mr. Neugebauer, for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, and thanks for having this important hearing.

Dr. Brown, because we are in a pretty tight budget environment right here, obviously putting together a farm bill is going to be extremely important, and with dairy, this is a brand-new program. You know, one of the things that Congress isn't is nimble, and so it is very important that whatever policy, if we move forward with this, that we put in place over the next 5 years that this is a program that will work effectively and, more importantly, work within the budget constraints that we will be working under. Are there particular formulas or triggers in this program that we need to be extremely careful about and cognizant of as we move forward in this discussion so that we make sure that we get this right?

Dr. BROWN. Certainly, when you look ahead, the notion of protecting margins and you are at least accounting now for feed costs and milk prices helps make the margin side of this more robust than just protecting milk prices as we have done traditionally long term in the dairy industry. The levels of those triggers are very important. You set those triggers too high and we could be in a situation where the program operates on a very regular basis and no one in the industry might be happy with that outcome, producers included. When I look at the triggers that we have right now in the work that I have done relative to the baseline, again, we don't trigger very often margin payments so it seems like we have triggers set that don't make the program operate all the time. I think when you look at market stabilization, the United States-to-world price triggers have certainly been an addition as this proposals move forward that I think are important to make certain that we don't disconnect the U.S. sector from the rest of the world.

Mr. NEUGEBAUER. And in your analysis, you did a look-back. Did you do a look-forward analysis as well?

Dr. BROWN. Yes, absolutely. So the analysis that you see from me today is a look forward. It is compared relative to a baseline that looks at a number of outcomes, both low market outcomes and high market outcomes. Again, doing that allows me to say roughly relative to the baseline base program payments occur 15 percent of the time. It provides a more robust analysis looking at it in this forward-looking stochastic process relative to continuing current programs.

Mr. NEUGEBAUER. Thank you.

Mr. Kozak, if I am a really good producer and I have a little better margin than some of my competitors, can I still expand my operation during a market stabilization period?

Mr. KOZAK. Yes, Congressman. One of the features that was put into was the concern about first of all making sure that this program allows new entries, because as you have heard before, we need new producers coming in. So those provisions allow for new producers to come in, and once it triggers out, you go back to your original base production and therefore if you have produced since the triggered in, you are now at that same base. So it is a rolling type of program because our organization wouldn't support a program that would eventually stifle milk production.

Mr. NEUGEBAUER. Thank you.

Mr. Davis, a lot of folks have painted this as a voluntary program. From your perspective, is this a voluntary program?

Mr. DAVIS. As I said earlier, the processors have to engage the minute one of their producers selects to be in supply management/ the insurance program, but I tell you, and as Jerry alluded to, I talk to a lot of bankers too and bankers assure me that if there is a safety net out there, they are going to force their clients to be in it. If they are in it, they have to be in the supply management program as well.

Mr. NEUGEBAUER. One of the things that you objected to is that you are almost becoming an enforcement mechanism because you are going to be buying the milk, and if we are in that period, you would be collecting the hole back. Did I understand that correctly?

Mr. DAVIS. Yes, and the way I understand it, if I missed this, I don't think I have, but if I do, I apologize, but we are going to be doing all the auditing and accounting for all this for all our direct ship producers.

Mr. NEUGEBAUER. Mr. Kozak, do you have a response to that?

Mr. KOZAK. Yes. Let us keep in perspective that 85 percent of all the milk marketed in the United States is through dairy cooperatives so they will be the first one that will probably handle much of this burden on there. If there are independent producers that ship to Mr. Davis, of course they would have to do it. But I will also point out that processors are currently required to have an accounting function that takes off the 15¢ hundredweight from farmers to USDA, so we don't see this as some tremendously new system or creating a new bureaucracy.

Mr. NEUGEBAUER. Quickly, Mr. Davis, did you have a follow-up to that?

Mr. DAVIS. Just two things. Number one, 75 percent of our producers are direct ship. They are not members of co-ops. And number two, we manage the 15¢ for the national promotions board currently, and I would assume we would manage the funds in this as well.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

The CHAIRMAN. The chair would now like to recognize the gentleman from Oregon, Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman.

Just a quick comment. So we don't lose sight at this hearing, the good news here is that it seems like there is universal testimony that the old system hasn't been working and we need to go to something new, and most of the contention seems to be over the stabilization program, so just for everyone's temperature, I think that is important to realize.

To that effect, I would like to flip the conversation a little bit and get Dr. Brown's opinion on why it is necessary given the nature of the program that is going to insurance as opposed to price support, why do we need the dairy market stabilization program?

Dr. BROWN. I think certainly when you look at the package as it has been put together, adding market stabilization certainly helped from a government outlay standpoint, certainly trying to keep a bill that fit within the scoring targets that might be out there for the dairy industry. When you start talking about market stabilization, you reduce the cost of the lease-based program margin payments and potentially supplemental payments as well. I think that is the important feature that has brought market stabilization into the package.

Mr. SCHRADER. So if you are fiscally responsible, you kind of want to have at least something to guarantee government outlays, don't continue to go on *ad infinitum.*

Dr. BROWN. Without market stabilization, a base program that pays the difference as prices are—sorry—as margin falls below $4, you can imagine very low margin outcomes creating very large outlays.

Mr. SCHRADER. Mr. Kozak, what about from the dairy industry perspective? Is there a reason that this program is important at all?

Mr. KOZAK. Well, it is critical for two reasons. When we started the process, we looked at the prospects that the dairy baseline was going to be reduced. That has happened. Dairy baseline is now $433 million. When we helped try to look at what the impacts of this program would be, it is somewhere around $250 million that has an—of the dairy market stabilization of reducing the cost of the supplemental program. Now, in this day and age where we are concerned about budgets, this is the dairy producers stepping up to the plate and helping keep down the costs of their own program. I think that is a win-win for this Congress.

Mr. SCHRADER. Thank you.

To Mr. Davis, again, trying to keep things in perspective, this program originally wasn't voluntary. Some of the triggers were not in the bill that are now in the latest version, so you have had an impact and I appreciate the work that has been done. The thing I don't particularly appreciate is reading in *Hoard's Dairyman* where you essentially impugn the Ranking Member's knowledge of the dairy industry. It strikes me as if the Ranking Member from Minnesota doesn't have the background having helped craft, perhaps been the major crafter of the 2008 Farm Bill and being an expert in dairy policy, we wouldn't even be here today talking about a program that by all accounts just a moment ago everyone agreed was a heck of a lot better than what we already had. So if you want members on your side, you might want to be careful. You are not a Member of Congress, and sometimes we say a lot of things we shouldn't be saying too, so you might be careful of how you talk about various Members we hold in high esteem here.

A lot of the argument that goes into discussion about the market stabilization programs seems to be philosophical, and I think that resonates with everybody regardless of political party. They don't want the government determining prices. And I think that is the reason we went to the voluntary nature of this program. So a question for you, Mr. Davis, would be, on the one hand we are arguing free market opportunity whether it is for exports or how we run our farm and our business. On the other hand, you are asking for a government handout in the form of some sort of subsidized either insurance program or price support program. Don't you find that a little contradictory to argue one side and then take the other?

Mr. DAVIS. Well, I first would like to apologize if some of my words were taken—I haven't read the *Hoards Dairyman* so I apologize if they were taken out of context. I certainly had an opinion on a panel a week or 2 ago and I still have that opinion about dairy policy. I don't know how they took those comments, so I apologize. I didn't mean to impugn anybody.

But I would tell you that the margin insurance program as presented is something that National Milk and the dairy farm community has presented and we find that acceptable. We certainly would also encourage self-funded dairy farming margin insurance as well.

Mr. SCHRADER. Very good. Thank you.

I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman from Vermont, Mr. Welch, is not a Member of the Subcommittee but has joined us today. I have consulted with the Ranking Member and we are pleased to welcome him to join in the questioning.

We now move to the gentleman from New York, Mr. Gibson.

Mr. GIBSON. Well, thanks, Mr. Chairman, and I appreciate the panelists being here today.

I want to begin just by associating myself with the remarks by Mr. Wright at the outset. I represent farmers in New York. This is a region that is under-supplied, and we are anticipating growth, particularly with the advent or the burgeoning of the yogurt industry in New York. So I have concerns about the ability of our family farmers to continue to prosper and meet market demand and perhaps we will get back to that. I just want to state that from the outside.

I am interested with Dr. Brown, based on your research, is it possible that you could put together an algorithm, an interactive one where our farmers could take your information, all your research and they could input their data points, how many points of milk they produce, they could sort of look at scenarios of the various levels that they buy up. They could plug that in. It would come forward with some probabilities and there would be costs associated with that so that they can rationalize this decision. Because there is a lot of uncertainty about this, and I am wondering if your research might be able to help them make a more rational decision.

Dr. BROWN. Certainly, there is a producer education effort that would need to go on if we were to see this language be passed, but being able to help producers in that decision is certainly something that I think the work that has been done from the aggregate level can be extended to the producer level. Some of the buy-up coverage levels and exactly how that payoff works for different producers is important as they get to make choices about their level of participation.

Mr. GIBSON. Well, I certainly agree, and Mr. Chairman, I recommend that we look at something like that. Certainly, there are no guarantees on these things and there would be levels—there would be margins of error and there would be probability ratings on this but a farmer could take more control of their situation when they understand the probabilities based on the research that you have done, which we greatly appreciate.

I wonder if we can get a finer point response from you, and I am not talking about the exact dollar but the ballpark in the event that the supply management is not accompanying the margin insurance, what kind of price tag we're talking about and impacting the baseline. And you can use parameters if you need to do something like that.

Dr. BROWN. Certainly, it is not something that I have looked at at this point is a program without market stabilization being a part of it. I am assuming that the price tag gets into the millions of dollars fairly quickly. When you are in outcomes that are below $4, we are going to have costs pretty quickly, and if we don't have market stabilization to help get that adjustment back, we could spend money very quickly. So I am not really ready to narrow it down very much other than to say that I think there is a significant difference in cost relative to how the program is currently put together.

Mr. GIBSON. And then I guess back to my initial point about in our situation in New York, and I guess I would just open it up to you first, sir, and then anybody else in terms of how you think that this proposal can flourish, given the regional challenges that are evident throughout our country.

Dr. BROWN. I am certainly spending a lot of time talking about market stabilization, and I always like to make certain that folks understand the supplemental buy-up provisions that are in the package certainly look attractive. If I am a producer with less than 4 million pounds of production and I can talk about supplemental coverage that costs me 10¢, that is a relatively inexpensive investment relative to potential payout, and so there are a lot of plusses to that supplemental side that help regionally and so it may be where different producers participate. If you look at the Texas A&M representative farms results, there are a couple of things that stick out. Number one, there are a couple of Florida farms in those panels that are non-participants so I don't know that those representative farms really differ in terms of the outcome whereas others would suggest $6.50 coverage or $5.50 coverage of supplemental is very good.

Mr. GIBSON. You know, what happens if we don't—your model is based on 70 percent of the volume getting into the program. What happens if that doesn't happen?

Dr. BROWN. Well, certainly, if we talk about less milk being a part of the program, supply management or market stabilization is less biting, but likewise, we will make less payments under the margin program as well. So there are tradeoffs in both directions as you change participation. As we all know, participation is pretty tough to call. We can certainly look at the economics of these models, but how producers respond, it is a difficult one to call.

Mr. GIBSON. I realize I am out of time, Mr. Chairman. Thanks for the opportunity.

The CHAIRMAN. Thank you.

The chair now recognizes the Ranking Member of the full Committee on Agriculture, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

I would also like to announce that the Senate passed the farm bill 12–5 including the Dairy Security Act, and the Bennett amendment was pulled.

Anyway, Mr. Gibson, the number is $250 million that it would cost us if we didn't have the stabilization, and I am not necessarily a big fan of that myself. At one time it was $500 million in one of the scores we had. But the reality is, we wouldn't have a bill if it wasn't in there because we were given the instructions that we had to come in with less costs than we currently have. I give Mr. Kozak and the other people that have been involved in this a lot of credit for having the patience and the thick skin and perseverance to keep working through this. You know, when Jerry came to me, what, 2 years ago, 2½ years ago——

Mr. KOZAK. Almost 3.

Mr. PETERSON. Three, yes, when I was still Chairman of the Committee, what I said to him, that this isn't working, we have to have a different dairy policy, and he laid out to me what they were thinking about, and I said that sounds like something we can work with. So I created a little Subcommittee here that we worked with them from day 1, and Jerry came in and briefed us and we had a back and forth and our staffs got involved through the whole process. Is it perfect? No, nothing is going to be perfect in this place. But we can't live with what we have. And all of this talk about exports under the old system, people forget, we had a price support system. People were making powder that there was no market for and so they were having to assess their members so they could export it, or the DEIP program was exporting it. One of the things we are going to do with this new program is, we are going to make these folks make for the marketplace. If there is no market for powder, they are going to make yogurt or they are going to make whey or they are going to make for the marketplace. This is what mystifies me about IDFA when we have made this so much more market oriented, so much more export oriented. You know, 80 percent of what they have been asking for for the last 10 years is in this bill and then they create a war on it. It just mystifies me.

You know, the other thing that people need to remember about all of this is that when you get into this situation where you have a price collapse, what a lot of farmers do because they have a cash-flow problem is they increase production. And it seems it shouldn't be done but that is what happens in a lot of cases. And so we get into an oversupply situation and the dairy farmers actually produce more because they have to make their payment to the bank. And then we get this volatility. We go way up and we go way down, and that is not good for anybody, for the people that are processing, for the farmers, for the future of this industry in this country. You know, so this takes the volatility out of the system. The farmers are going to be the ones that are going to have to pay for this. I would say with all due respect to the people from IDFA, if they really want to help us, whenever the prices go up, they raise their prices, but when they go down, they don't lower them. And milk is kind of inelastic in demand. But if they lowered prices when the farmers are getting $10 a hundredweight, we would clear the marketplace a lot faster, but that doesn't happen. It goes up but it never seems to go down. So we have to fend for ourselves. We have to make a system that is going to work for our producers, and that is what we tried to do here, and if you take this stabilization out, you are not going to have a bill, and we can't afford not to have a bill, and that is the bottom line.

Mr. CARDOZA. Will the gentleman from Minnesota yield? I would just like to make the point as well that in the last Congress, it was allowed that forward contracting be put into play, and that acts as well to take folks voluntarily out of the market. They can forward contract and I assume they don't have to participate in what Mr. Davis has been talking about, and I assume that the banks will honor that kind of a contract as something that they will lend on, so I find your comments to be genuine and the others to be not in keeping with my understanding of the market.

Mr. PETERSON. I yield back.

The CHAIRMAN. The chair now recognizes the gentleman from Kansas, Mr. Huelskamp, for 5 minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

A couple questions for Dr. Brown. I think it was mentioned, you assume what participation rate in your model?

Dr. BROWN. Seventy percent of the milk produced participates.

Mr. HUELSKAMP. And what happens if participation is significantly lower or significantly higher? What happens in general from both those perspectives?

Dr. BROWN. If participation is significantly higher, we will have a situation where in aggregate we will reduce the variability in margins more as more milk is participating in, either getting supplemental payments or getting base program payments and being a part of market stabilization. As participation goes down, the effects will be moderated—less payments under the program in aggregate, less effects on the marketplace as participation is lower.

Mr. HUELSKAMP. So if participation is lower, you would predict significantly higher volatility will remain in the marketplace then?

Dr. BROWN. Yes, more volatility, and you can pick the extreme of no participation means we just have a continuation of current programs and the volatility that is inherent in the baseline would be the resulting outcome of no participation.

Mr. HUELSKAMP. What particular producers or regions do you anticipate will be more likely or less likely to participate?

Dr. BROWN. I think it is hard to say, so there are some regional issues to this. How correlated is an individual's particular margin relative to what we are protecting can matter in terms of participation. Grazing dairies, for example, might be one where their margin moves a lot differently than the aggregate, so that correlation of an individual producer relative to the national average is important. I do think that you have some issues where regions of the country that are milk deficit may be less interested in participating. But those are really the issues. I think it is a producer-by-producer case more than it frankly is a regional one and how that individual producer's margin moves relative to what is being protected.

Mr. HUELSKAMP. Have you attempted to predict that in your model, participation by region?

Dr. BROWN. I have not at this point, I have only been looking at national results.

Mr. HUELSKAMP. I would hope you could provide that to the Committee because I think that would be pretty interesting to me in my region *versus* others as well.

Dr. BROWN. I will say, if you look at the work by the Ag and Food Policy Center at Texas A&M, they do have representative farms scattered across the country. You can see the preference of those particular farms in terms of their interest in the program. I go back and say the Florida farms choose to be non-participants. Some of the other farms around the country choose different levels of supplemental coverage.

Mr. HUELSKAMP. Would there be any variability between those producers that actively engage using their own risk management tools that they would choose not to participate in the program if they actually manage their own risk?

Dr. BROWN. Certainly that is an option. That is the one thing that you have the choice of how you want to participate in the program since it's voluntary. You know, even those that are really good risk management operations may still choose to participate in the program. It gives them an added risk management strategy to use, more risk management tools in the toolbox.

Mr. HUELSKAMP. And how much variability is there in the industry of those who actually use risk management tools and those that are depending simply on government programs?

Dr. BROWN. Well, we have certainly seen increases in the use of these tools over time but still small in the dairy industry relative to a lot of other segments of agriculture. I think it is an industry that we have had a lot of government support over the long term and it has taken the industry a while to embrace some of those risk management tools that are out there now.

Mr. HUELSKAMP. Those in my sector are heavily dependent on the fed cattle market and there are swings up and down, and we would love to see the comparison of the price volatility. There is obviously no program to deal with that and you try to manage your risk in the futures market and with forward contracts on both your feed and your product as well, and I am just curious about the distinction, how much difference there is in that industry.

Dr. BROWN. I would be glad to try to provide that. Certainly, the cattle industry is seeing ups and downs. You are correct. I think in percentage terms, you look back at 2009 and it is hard to find an industry that lost as much equity as we saw in the dairy industry.

[The information referred to is located on p. 1921.]

Mr. HUELSKAMP. You can roll back to 1994 and look at 1 month in the cattle industry, I believe it was, they saw a 10, 15 percent equity loss in a very short period of time in the cattle industry and a tremendous crash in the marketplace. I am sure you are aware of that, Dr. Brown.

Dr. BROWN. Cattle feeding is a pretty risk business as well.

Mr. HUELSKAMP. They say you haven't been a real cattle feeder unless you have been bankrupt twice in my area. So I appreciate it.

I yield back my time, Mr. Rooney.

The CHAIRMAN. Thank you.

The chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you very much, Chairman Rooney, and first of all, I want to commend you for having a hearing and for the distinct lack of protesters in cow costumes and uniforms. I wasn't unfortunately able to do without when I was in your chair, so I commend you for that.

This is a very interesting hearing, a very important one, and I have listened to this discussion, and I want to say a couple of things up front from following this issue over a period of time. First of all, I certainly recognize that the current system is not functioning well, and I also recognize the importance of protecting our nation's dairy farmers from high price volatility as our Ranking Member is so ably doing. But I am also concerned that as we move down this road what the impact will be on the processors, those people who make the ice cream, who make the end products that wind up in the grocery stores. I am particularly concerned that we make sure that the processors who themselves, I think we all realize, are operating on very thin margins both domestically and internationally, and we need to really closely examine and make sure that any disruption in supply or any increase in price, whether or not it will greatly impact their profitability, and they are already operating on these thin margins. Because whatever that is, that cost is going to be passed right on to that consumer. It has to do that at the end, and then we all hear from our voters, we hear from our consumers about the price.

So I am simply saying that as we move forward with this, and I understand from the Ranking Member that the Senate has already moved and incorporated in their markup, but we need to make sure that any proposal dealing with this is fair and is responsive to the dairy farmers as well as the processors. I do have a little bit of concern with that, the Dairy Security Act moving in that direction, whether or not it fails that test. But I do want us to kind of move forward with some understanding of both sides of this, and the processors certainly have a point that we need to examine.

Now, let me start with you, Dr. Brown. You mention in your testimony that your analysis showed only a minor increase in prices for milk. It is important to remind everyone, though, that small does not mean insignificant, and your report doesn't mention at all what effect this price increase would have on the processors' margins or consumer demand. So why did you fail to analyze these issues as well, how it would affect the margins, how it would affect the consumer, and were you simply responding to a request or is it your opinion that there will simply be no effect on processors or on the customers in the grocery stores?

Dr. BROWN. First of all, the work that has been done is looking at all segments of the dairy industry from producer to consumers, so I would look at one of the tables, *Table A–2* of my report, and suggest that, yes, milk prices for producers are slightly higher, the average of about 4⁄10 of a percent higher. I look further down the table and I see that wholesale cheese prices, wholesale butter prices, wholesale nonfat dry prices are also roughly the same percentage higher would suggest margins aren't changing very much for processors on average as a result.

Mr. SCOTT. Now, Mr. Davis, you weigh in on this. What do you say about what he just said is the issue?

Mr. DAVIS. About higher prices or——

Mr. SCOTT. Yes.

Mr. DAVIS. The higher prices as we have seen with fluid milk, I am not in the fluid business but certainly the numbers are pretty transparent.

Mr. SCOTT. What I am trying to get at, do you see the same thing that Dr. Brown sees? Do you agree with him?

Mr. DAVIS. In what respect? He said a number of things there.

Mr. SCOTT. Well, in terms of what he said about there is a very slight margin. I think that is what you said. And in essence that the impact is not as great as some of your members say they are. I represent a lot of processors, so I want to make that clear as well, and I want to make sure that their points are made in this as well as dairy farmers. I want to make sure that you are okay with what he is saying and whether we have a problem here or not. That is what I am asking you.

Mr. DAVIS. I think higher prices will reduce dairy demand domestically and internationally, and it has been proven in the fluid market. It is very elastic. Demand is very elastic to price.

Mr. SCOTT. Can you clarify for me what happens to consumer demand when you all have to start charging more because of higher input prices?

Mr. DAVIS. Consumers look for alternatives, certainly, and especially in the fluid market, there is a lot of liquid alternatives, one being water is probably the biggest competitor to milk around, but certainly other fluid products that compete with milk. They will make a choice to consume those, and that has been proven that many times during high prices fluid consumption goes down. Fluid per capita consumption has been dropping for 25 years.

Mr. SCOTT. Now, finally, I just want to ask you this and I will be through. Would not an uptick in the price of U.S. dairy products coupled with an appreciation of the dollar *versus* other currency also drive down exports as ell?

Mr. DAVIS. You said a lot there. If the dollar gets stronger, will it drive down exports?

Mr. SCOTT. Right. If there is an uptick in the price of U.S. dairy products coupled with an appreciation of the dollar, dollar appreciating, *versus* other currencies, would that not also drive down exports as well?

Mr. DAVIS. I think the price increase will drive down exports. The dollar strength—most dairy products are traded internationally and priced off of the dollar. That change doesn't affect exports. In fact, Tom Suber from USDEC did a very good study on what the dollar's impact, strengthening or weakening of the dollar does to that demand, and it is generally found that most products are priced in dollars so that doesn't affect demand internationally.

Mr. SCOTT. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. The chair now recognizes the former Chairman of the Committee on Agriculture from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

Dr. Brown, Mr. Wright's testimony did a good job of illustrating a legitimate concern about supply management. To paraphrase, he said that because of the large seasonal swings in milk production in the Southeast, supply management could be exaggerated in that area. Dr. Brown, when you were doing your analysis of this proposal, was there any examination about how Southeast production would be affected?

Dr. BROWN. Certainly in choosing participation levels, the representative farms saw farms from different parts of the country. The two from Florida that are in their panel process certainly were a couple that chose to be non-participants. That certainly factored into the aggregate results in terms of what percentage of total milk supplies in this country would participate.

Mr. GOODLATTE. Very good.

Mr. Kozak, how do you respond to the significant numbers of my dairy farmers that I have heard from on this who have concerns that the supply management proposal could be exaggerated in their part of the country?

Mr. KOZAK. Well, actually, I am a little surprised at that time because Maryland, Virginia, Land O'Lakes and DFA, which represent a significant portion of the milk in your district, are absolutely complete supporters of the program.

Mr. GOODLATTE. Let me interrupt you there. I met with a very large group of dairy farmers from my district just last week who were concerned about the supply management provision in the bill.

Mr. KOZAK. Okay. Well, obviously, people have differences of opinions in different sections but as Mr. Peterson indicated, this has been a carefully crafted consensus package. It is not perfect, and we are not to have 100 percent, the same way I don't think there is 100 percent of the processors against the proposal either. We are going to always have that but I think that when you look at the fact that National Milk Producers Federation, the American Farm Bureau Federation, the National Council of Farmer Cooperatives and almost all of the major dairy associations support this program. That says something as to how far we have come.

Mr. GOODLATTE. I only represent the ones in the Shenandoah Valley of Virginia.

Mr. KOZAK. You are lucky. I represent them all.

Mr. GOODLATTE. Mr. Wright, I share your sentiment that supply management in a milk deficit area does not make sense. One of the amendments that has been offered to the Senate dairy package proposes a standalone insurance program funded by modest producer premiums. Is this a proposal that would have support among producers?

Mr. WRIGHT. Congressman, in concept, it might with ours. I haven't actually seen that so I haven't been able to analyze it and see exactly where the break lines are, is it comparably priced insurance and so forth. I actually spent quite a bit of time both within National Milk and outside of National Milk trying to organize on the producer side kind of a charge to push for just that, and I couldn't get takers. I also personally reached out to Ms. Tipton to get her engaged earlier, and they chose to take a sit and wait. So it is not from a lack of trying. Within the producer community, I just was unsuccessful. So would our people prefer that? Yes, because we are not in love with supply management. But it is a hard sell within the industry. I am a little bit in disbelief that there really is a fair amount of supporters in the producer industry as a nation for supply management, whether it is because 2009 was so painful. I don't know all the reasons. But I am a little surprised there is that much support but it is genuine. It really is.

Mr. GOODLATTE. Mr. Davis, if this supply management program is implemented, your company would be required to withhold money from dairy producers when the supply restrictions are in effect but only from those producers who elect to enroll in the margin insurance program. Does your company have the necessary information today to determine how much money to withhold from which producers?

Mr. DAVIS. I don't today. I would expect to receive it and get educated on it but I don't know the specifics of it today but I don't see that as a reason to oppose it. I just think there is a lot of work there.

Mr. GOODLATTE. Well, how do you get from no to yes?

Mr. DAVIS. Well, as I assume, and I hope it doesn't, but if it does take shape and become law, the information will be readily available and we will learn what the specifics are in terms of how we audit, manage and report that stuff.

Mr. GOODLATTE. Have you heard from any of your international customers about this supply management program and what does that mean for your business and for the fact that our dairy exports are growing pretty substantially right now and that seems to be a good way to handle oversupply. Are we going to face some cutbacks, some difficulty in gaining further market share internationally?

Mr. DAVIS. Yes, it is my biggest concern. I have already had comments from present customers, potential customers, and in our industry, we actually have some customers that are competitors so we sell some European companies products that they don't make and then we also compete with them on some of the products they do make. They are jumping for joy that we are considering limiting supply in the United States because it reduces their competition.

Mr. GOODLATTE. Mr. Kozak, do you have anything to say to that?

Mr. KOZAK. First of all, the fact that we are using the words *supply management* is a total misnomer. If anybody has really studied this program and how it has been structured, this is a market stabilization program, and I know some will say it is still supply management. It is not. It clearly isn't your classical market supply management program. All it does is send timely signals. A farmer would have almost 90 days to take behavioral actions at their farm if this was going to trigger in, and as we have seen from some of the other testimony from Dr. Brown, if it triggers in, it triggers out quite easily. And I want to make the point that Mr. Scott left, that we are processors too. We have 200 processing facilities all around the country. Dairy cooperatives produce almost all of the nonfat milk in this country, 70 percent of the butter and nearly 30 percent of the cheese, and so we need to reflect back that these are the people who have structured this program. We are not trying to hurt ourselves because of that.

Mr. GOODLATTE. Great. But in an area like mine, which is primarily fluid milk producers, what are you suggesting that small dairy farmer do with those 90 days to get ready to make that adjustment?

Mr. KOZAK. Well, first of all, as you understand, it is voluntary. They don't have to do anything. They don't have to sign up for the free margin program nor for the subsidized supplemental. I have had dairy farmers in my face all across the country, some of them very angry, just as you have experienced in your own district, and they say I don't want the government in my business. Well, they don't have to be in the business. But if they expect the government to provide free margin insurance and some security net, they need to participate in the program. It is still a choice, and it is certainly not government intrusion to have producers also pay down the cost of the program through premiums. I know I should keep this concise, but I would like to make one point if I can, Mr. Chairman.

The CHAIRMAN. Certainly.

Mr. KOZAK. In 1996, the price support program was eliminated. There was nothing put in its place. It was draconian in its concept, and what this is trying to do is to get rid of three longstanding programs, asking farmers to give those up voluntarily, put in place a new system and allow them to transition through this process. Instead of just looking at the short term, we have to look at what the long-term goals are here, and that is to get everybody to utilize this margin program and also to finally manage the risk of their farm through supplemental. The only way we can get there in this farm bill is to include a market stabilization, as Mr. Wright said, because the sentiment of producers is, they want something to help balance those positions. I think that is a reasonable course.

Mr. GOODLATTE. My time has expired, Mr. Chairman. I wonder if Mr. Davis or Mr. Wright might want to respond to that last statement. Maybe not.

Mr. DAVIS. I do. I just fundamentally disagree with supply management, and getting three things right doesn't give you an excuse to get a fourth thing wrong. That is just how I feel.

Mr. GOODLATTE. That was concise.

Thank you, Mr. Chairman.

Mr. WRIGHT. I can make a comment. My views on supply management, they are not only philosophical, they are business, but I do want to say one thing that hasn't been said yet because I have had to swallow hard. I mean, I have come up to National Milk meetings and then go home and tell our people what the proposal is and how it is proceeding, but it is actually some people from some of our western dairy interests that have actually at least partway convinced me that a voluntary program could actually be good for the industry, both producers and processors, and here is why. Mr. Davis, even though he is not in the fluid business, talked about the fluid business. I would submit two things. First of all, part of the problem with fluid is not just price level, it is volatility. And I would submit to you that—and I am fairly well convinced that enough people out West, because that is where the strongest support for supply management is. I do believe that enough producers out West will sign up for a voluntary program that it will moderate the volatility, in both directions. I mean, our dairy markets go too high and they go too low. Markets left to themselves overcorrect in both directions. So I am somewhat convinced, even though I think it is wrong for my region of the country, I would love an exemption but that is not what—but I do think if enough milk would sign up, it would moderate the volatility that the entire industry would benefit, and I am somewhat persuaded by that argument.

Mr. GOODLATTE. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from California, Mr. Costa, for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman. With the exception of Mr. Barcellos, Mr. Kozak, for the other three witnesses, let me tell you that my family has been in the dairy business for three generations, and if I didn't have this job, I would get a job somewhere milking cows.

So with that said, Mr. Davis, your opening comments about President Reagan turning over in his grave today, for your information, you may be aware of it, but in 1968, then-Governor Reagan signed the California Milk Pooling Act that is regulated and that affords minimum pricing and is a program that most of the dairymen were very pleased that then-Governor Reagan signed into law.

Mr. Barcellos, you wear multiple hats, and I was pleased that you talked about the efforts that Land O'Lakes is now pursuing with your problems of production in your plants not being able to handle the capacity of the milk that your producers are offering. Your three elements that you have offered for your dairymen are to reduce their production by six percent and be eligible for a 30¢ premium per hundredweight on their base milk for 3 months, or surrender their base and offer their herds to buy out in exchange for 30 days of paid milk production or do nothing and be subject to a penalty of $10 per hundredweight on milk produced based on their value until June 30th. It has been a rocky road you guys have been going through here lately, and as you said in your testimony, you have lost 17—or 17 producers have chosen to opt out, I guess, is a better way to say it. Is this not some sort of milk stabilization or supply management that you are performing locally?

Mr. BARCELLOS. Yes, it is an in-house program. Personally, I took option one, which was a six percent reduction, mostly because I knew I could achieve it relatively easily, even though we have had cows just milking like crazy because of weather, feed and things of that nature.

Mr. COSTA. But still, I mean, we have said it a couple of times here by different Members, but I mean, as we say in California, what do dairymen do when milk prices are down? They produce more milk. Of course, we had a mild winter. What do dairymen do when milk prices are up? They produce more milk. The model doesn't seem to work these days in terms of the volatility when we are looking at the national challenges that we are dealing with.

Dr. Brown, I listened very closely to your analysis here, and you have obviously taken a lot of time to examine the National Milk proposal. Do you think that if this proposal were implemented into law that it would be able to achieve the basic objective, which is stabilization?

Dr. BROWN. I think that when you look at the variance reduction that comes from the analysis, a 75 percent reduction in that variance or even a little greater certainly suggests that we are reducing margin volatility, yes.

Mr. COSTA. To Mr. Kozak and to Mr. Barcellos, it seems to me that, I mean, producers always would like to get as high a price as they can for their milk and milk products, which is understandable. It seems that the processors obviously—I don't think that there has ever been a question of a stable supply of milk. There always seems to be plenty of milk. They would like milk as inexpensive as possible. I understand that. The two goals in terms of trying to bring processors and producers together are in conflict. They have always been in conflict. Am I right or wrong?

Mr. KOZAK. Well, I think you are correct, obviously, because that has been historically the case, but what the Dairy Security Act is trying to do is to address some of the challenges that we have had in the past. The program wasn't ever designed to enhance milk prices, and when I told that to our own producers, you could imagine the reaction it got because they think that is what was done. It was really to address the volatility, and as I said earlier——

Mr. COSTA. And the volatility has been the problem, and the highs are getting higher and the lows are getting lower and they are getting narrower together, and we can't afford to lose the equity that we lost in 2009 and 2010.

Mr. KOZAK. And I think that also impacts certainly the processors because I have worked on both sides, and in those years either whether it was at IDFA or National Milk, volatility was something that was always the issue. We know we are not going to take volatility up, but as Dr. Brown's report shows, we have done a pretty good job of at least trying to moderate that. I think that is a benefit to consumers because it does impact the retail level when prices go up and down, and as we know, the farmer—Mr. Scott was concerned about processors, rightfully so. The farmer only gets 30¢ for every dollar spent at the retail level, and therefore we have to worry about the solvency of dairy farmers as well as its impact on——

Mr. COSTA. Well, dairy farmers like most farmers are price takers, not price makers. I mean, that is the problem.

And Mr. Barcellos, I know my time has expired but Mr. Barcellos and his family are tremendous role models of what terrific dairy producers we have in California, and you are to be commended. Tom, on your point of modifying the bill for price differential on feed prices, how would you make that work on a national basis?

Mr. BARCELLOS. Well, on a national basis, if you take the feed cost calculation and you use the state average of the ten highest producing milk states, you actually cover the entire country east to west, and that would make it equitable to all producers.

Mr. COSTA. And you think that would be able to level out the differences? I mean, because feed costs, as we know, on a region-by-region basis in this country vary and sometimes significantly.

Mr. BARCELLOS. I think it would come closer to make it more equitable, and mostly because people will offer other opportunities as well, we have other little things we would like to pick on but, at my highest level of feed input for milk return, I was at 80 percent one time.

Mr. COSTA. How much of your feed do you produce?

Mr. BARCELLOS. I produce all of my feed. If it wasn't for my farming operation being able to carry that at the time, I would have been like many others. I might have been one of the 17. It could have been 18.

Mr. COSTA. Mr. Kozak, do you think you could incorporate that, or have you looked at that proposal?

Mr. KOZAK. Yes, we spent almost the whole year looking at things, and I am completely sensitive to what Mr. Barcellos is saying, but let me just say this. If you look at the top 23 producing dairy states in the country, and I don't want to be pessimistic for you, Congressman, but California ranks last in the 23 top producing states in the price that farmers receive for their milk marketed. So I contend that it really isn't the differentiation of feed costs because there are many states that have higher feed costs. The problem in California is, they get a significantly lower milk price and that is why there is a lot of people advocating that they go into the Federal Order System. So we ought to be able to look at taking care of the price first and certainly then take a look at looking at the feed cost issues.

Mr. COSTA. All right. Well, my time has expired, but thank you very much.

The CHAIRMAN. The chair now recognizes the gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman, and I thank the witnesses for your testimony.

I would like to pick up where Mr. Costa left off and turn to Mr. Barcellos first, and ask, Mr. Barcellos, your testimony, when you talk about a program that is indexed to the cost of feed to the ten highest milk producing states, can you tell me what is happening with dairy cows in California? Are those numbers going up or are they going down?

Mr. BARCELLOS. Those numbers vary as we go. They have been put recently as they have been across the country. That would basically be on the outstanding summer, winter and spring that we have had.

Mr. KING. Are they going up or down in proportion to the numbers across the country?

Mr. BARCELLOS. They are up just slightly.

Mr. KING. Okay. That is interesting. I would ask you it this way. If your feed costs are higher in proportion, then don't cows move away from expensive feed to cheaper feed because it is cheaper to move milk than it is feed?

Mr. BARCELLOS. Well, we actually exported 32 loads of milk in 1 week from our plant back into Michigan because Michigan was short of milk and we had an excess.

Mr. KING. We are shipping ethanol to Brazil. Joe smiled at that. I wanted to ask you, I drink milk, do you burn ethanol, Joe?

Mr. WRIGHT. I am avid fisherman, and I buy ethanol-free fuel for my fishing boat because it is a better fuel, but I don't have a choice in my farm truck. I have to burn ethanol.

Mr. KING. Thank you, Mr. Wright. I just want to tell you what spawned that question. I noticed the difference in your testimony. Your written testimony referenced Federal Government-mandated renewable fuels but your verbal testimony said federally mandated ethanol production. So I just thought I would point out that I noted that, and I appreciate there is a difference in viewpoints, but I don't mean to pick on you for that at all. It is more or less my perverse sense of humor.

Mr. WRIGHT. I think my verbal statement said *effectively*. There is a different language. Effectively, we are talking corn ethanol today. Hopefully it will be something else in the future.

Mr. KING. Well, I thank you, and I might come back to you if I have time, but I wanted to turn to Dr. Brown and ask you if you could give us your viewpoint on whether we might see the plummeting of milk prices again in that dramatic way that happened in 2008 and 2009? Among the contributing factors, could you list those and tell us how you think that scenario could possibly happen again if you think it could?

Dr. BROWN. Well, certainly, you look back to 2009 and it was a catastrophic event. I think it is hard to find another point in time in history that we saw such a rapid move in milk prices. I think just the contraction in the U.S. economy as well as the rest of the world got us in a situation where there was much more milk trying to find a home here in the United States than was the case prior to the downturn. That is really what got us into the catastrophic drop in milk prices at the same time we were having feed prices that were also moving up. So the combination of the two was pretty tough for dairy producers.

Mr. KING. And part of that would be consumers here as well because of lack of confidence in which the downward spiral was all around him?

Dr. BROWN. Absolutely.

Mr. KING. And I thank you for that. The question I asked Mr. Barcellos about which way cows move, do they move toward cheap feed, can you respond to that from your studies?

Dr. BROWN. Well, certainly when you look at history, we had a situation back in the 1980s where we saw cows moving to the West because of some of the production efficiencies that have been occurring, California included. As we move through time, we have actually started to see that general move slowly back towards what we might have thought of as traditional dairy areas, some growth in Wisconsin. That wasn't the case in the past. So, yes, the industry is responding to what have been higher feed prices and adjusting. It is a slow process.

Mr. KING. So if we index feed to a region or regional costs in that fashion, doesn't that restrain the market from adjusting to making those adjustments and cows moving and production moving towards the best cost?

Dr. BROWN. It certainly provides a different outcome than if you don't use that weighted index. That is true.

Mr. KING. Thank you, Dr. Brown.

And I turn to Mr. Davis and say you gave the clearest voice on *laissez faire* today. Would you care to comment on that, on where the production moves according to the cost of feed?

Mr. DAVIS. I think it certainly should fundamentally move to where the cheapest feed or the most inexpensive feed is, and the one thing I point out about California is, they have continued growth in their milk supply and milk production. For myself, I don't know how to get beyond the fact that the economics must be good enough to keep milking those cows. I realize there was a catastrophic time period. And I would also tell you that over 55 percent of the California milk production is against this plan.

Mr. KING. And just quickly, when you look at the spikes in milk prices that have gone through that span we talked about, 2008 and 2009, especially, the peaks and the valleys, would you propose anything to level out those peaks and valleys in markets?

Mr. DAVIS. Just to allow the government to give us and producers the tools to manage risk.

Mr. KING. Thank you very much. My time is up and I yield back. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir. I now recognize the gentleman from Vermont, Mr. Welch.

Mr. WELCH. Thank you very much, Mr. Chairman. This Committee is a tremendous Committee, the Agriculture Committee, to serve on. It is probably the most bipartisan Committee. There has been excellent work by the current Chairman, Mr. Lucas, and had tremendous work by Mr. Peterson, and I thank you for allowing me to participate.

This is an incredibly important issue for Vermont dairy. It is important everywhere. I started serving in the Vermont Senate in 1981 when we had thousands of dairy farms and we are now down to under 1,000, and the Vermont farmers have always been like farmers everywhere, extremely independent. What they have been saying is they want as little government involvement as possible, not more. They do not want a Canadian-style quota system. But they have gotten together and do support, for reasons much like you said, Mr. Wright, they have come to the conclusion that some type of voluntary market stabilization program is essential to do the one thing they want, and that is to survive.

Last week, I was on a six-generation farm, the Conant farm in Vermont. Ransom Conant, the sixth generation, young farmer, about to get married, optimistic about the future despite how incredibly hard it is, and his neighbors are telling us that the current system will not work. It won't work. We have to do something different that is going to give them that stabilization so that they don't have these wild swings, and the wild swings are due to things completely beyond their control. This is not like somebody who is a really good, prudent, careful, cautious farmer can deal with when it comes to the spikes in prices that are completely beyond their control, not to mention the weather. So the question for this Committee is, are we going to wake up and understand that the *status quo* doesn't work and then make the tough engagement to change to something that provides the prospect that people can survive in farming. We need that in all of our communities. You know, some of the questions that Mr. Goodlatte raised, those are the questions a lot of my farmers raise. Those are all very good questions. But we can come up with answers to them to make this work.

Now, the work you have done at National Milk, the work that you have done on economics and farmers is very important because you have had to bridge really difficult challenges to get some consensus, and that is with a group of people that can be difficult to deal with, independent farmers, okay? But they want to survive.

I have to ask you, Mr. Davis, you are here representing IDFA, and I did note the comment you made about Mr. Peterson, that you would hesitate to call him an expert on dairy policy. Now, Mr. Peterson doesn't need me or Mr. Schrader or anyone else to defend him. It is the case that he is widely respected in this Committee. He did the impossible. He got the last farm bill through. I have never seen anything so hard to do. But here is what concerns me. We can't succeed if IDFA and all the processors are saying no to every reasonable effort to do something new. You know, when these prices plunged in Vermont, when it was down to $12 a hundredweight, these farms got wiped out, and that was a year when processor profits were the best they ever were, and it is just the way it works economically. If the farmers aren't getting paid much for their milk, that means the raw material that the processors need is cheap, and that works for you, but it doesn't work for the farmers. It is not a sustainable model. So I am really asking you, what you do is important to farmers. It is really important. Farmers can't succeed if they don't have processors. But there has to be a mutual understanding that the model that we have is sustainable on both sides of that equation. So this is so much a question as it is just asking you to work with the reality that the *status quo* for the producers, these hardworking farmers, doesn't work. It is not sustainable and we need you at the table. We need IDFA at the table to help us get this bill through. I yield back.

Mr. DAVIS. Can I comment, please?

The CHAIRMAN. Sure.

Mr. DAVIS. Again, I haven't read this article that I was quoted in, and all I would say is, I don't believe in supply management and my comment on this panel was, I don't believe anybody is doing the right thing for the dairy industry if they support supply management. That was the comment. I don't know how it was taken into *Hoard's Dairyman* or what.

And I would also tell you, we realize we need producers and what we have proposed is margin insurance without supply management, and some of it self-funded, and if you pay a dairy farmer for all his milk throughout the month, he will have more money than if you have supply management in place and you don't pay him for 1 or 2 days a month, and that is a self-funding aspect to that. And I would also say one other thing. My family has two dairy farms. We milk 6,000 cows. We know and understand the economics of a dairy farm and we have a great respect for it, and I know you might pass that off as we are some corporate farm. My oldest brother, who manages that operation, wouldn't feel good about that because he is very passionate about what he does and we are planning on expanding our herd. So we do know and understand and appreciate what a dairy farmer goes through, and those wild swings, we are experiencing those as well. So I appreciate all that. All we want is tools to manage the risk.

Mr. WELCH. Can Mr. Kozak comment? Thank you.

Mr. KOZAK. I don't have to tell anybody here about the art of compromise. It took a great deal of effort, Mr. Welch, to convince farmers to give up the price support. It took an even greater effort, I aged in dog years trying to get them to give up the MILC payment as well as the DEIP. That is not some task that we should overlook. They wanted a mandatory program. We pulled it back to voluntary. We put triggers in it. We made sure that it wasn't intrusive. I don't know what more we could do in an effort to compromise and try to address the concerns other than for somebody just to say no.

The CHAIRMAN. The chair now recognizes the gentleman from Wisconsin, Mr. Ribble, for 5 minutes.

Mr. RIBBLE. Finally, Wisconsin dairy gets to weigh in. Best for last.

Mr. Chairman, I ask unanimous consent to submit two statements for the record on behalf of constituents. One is from the Midwest Dairy Coalition. They are supportive of the reform package. And one is from the Wisconsin Dairy Business Association. They are supportive of margin insurance but opposed to supply management. With your permission?

The CHAIRMAN. Without objection, so ordered.

[The documents referred to are located on p. 1933, and 1935.]

Mr. RIBBLE. Thank you, Mr. Chairman.

I will start with Dr. Brown. Have you or are you doing an analysis of Senator Bennett's amendment?

Dr. BROWN. At this point, no, I have not been asked to do any analysis.

Mr. RIBBLE. Mr. Kozak, go ahead.

Mr. KOZAK. We did an analysis yesterday because it doesn't require a great deal of economic modeling, Mr. Ribble, and it showed that over each year for farmers at the basic level, it would cost $37 million a year more than the present Dairy Security Act for dairy farmers. That is $186 million over 5 years. And if you insured yourself at the $6 margin level and it is capped under the Bennett amendment, it would cost dairy farmers $425 million over the life of the farm bill. That is on the backs of hardworking farmers.

Mr. RIBBLE. But they would pay it for themselves and sharing the risk? Is that correct?

Mr. KOZAK. Yes, sir.

Mr. RIBBLE. Okay. I am going to ask, first of all, you can see the box we are in here on this Committee, and I appreciate the debate and there is disagreement, there is disagreement at home, but I am going to ask a couple tough questions, Mr. Wright and Mr. Davis. Mr. Wright, you even said in your testimony first the Southeast as a region is milk deficit so supply management makes no sense. And I would say the same thing to Mr. Davis. Since supply management only kicks in when there is oversupply, why are people worried about it? If there is supply deficit, it will never kick in. Is that correct?

Mr. WRIGHT. Well, we are deficit as a region, but as a country, if we are oversupplied, we are kind of a unique market. The Florida Order averages 80+ percent class I or fluid, Orders 5 and 7, which is the Carolinas, and then those of Alabama and Mississippi——

Mr. RIBBLE. So is this a double hit for you then?

Mr. WRIGHT. So it is a double hit for us. They could be swimming in milk. My neighbors in California could be swimming in milk but we could be milk deficit and that thing would kick in. That is the challenge.

Mr. RIBBLE. Mr. Davis, I have heard a lot from my processors as well, but isn't the same thing true, it can't kick in unless there is— they can't be short of milk in this scenario because it would only kick in when there is oversupply. Is that correct?

Mr. DAVIS. Yes, and what I think it will actually do is cause more of an oversupply as we lose customers, customers that are looking at making choices between the U.S. dairy industry products, Oceana's dairy industry products or the European Union's dairy industry products, our two main competitors.

Mr. RIBBLE. Okay. Thank you for your comments.

Mr. Kozak, I recently did a town hall in Appleton, Wisconsin, with 80 dairymen. These dairymen vary dramatically in size and scope. The smallest one there was milking 42 cows. The largest was milking nearly 17,000. So it was a big range. I asked them all to stand up and I said how many of you are familiar with *Foundation for the Future*'s current program, if you are not familiar, please sit down. No one sat down, so all 80 members were aware. And then I said how many of you support the program; if you support the program, please remain standing. Every single person sat down. Why is that?

Mr. KOZAK. Appleton, Wisconsin. I can't explain that. All I know is this.

Mr. RIBBLE. Do you see the problem I have?

Mr. KOZAK. I have the same problem. I did five sessions up there this summer, and I appreciate, by the way, the thoughtfulness that you and your staff had looking at this because——

Mr. RIBBLE. We are trying to figure it out, just like you.

Mr. KOZAK. But, at the end of the day, you have to look at consensus and majority. I do know this, that almost all of the dairy cooperatives in Wisconsin support this program. And when I do ask individual farmers on a basis, you are going to get sometimes different reactions.

Mr. RIBBLE. Yes, what I have seen—I will be totally candid. What I have seen is that the cooperatives will come into my office and they will be supportive of it. They will leave, and 10 minutes later, ten of their farmers will come in and oppose it. Now, over the course of the spring, it softened a bit, so some of the modifications have helped a little bit, but I am fearful that we are still not there, that we still need to be looking at some alternatives or more involvement by and from the community as well as possibly participation on the risk management side.

Mr. Chairman, I see my time has run out, so thank you very much for holding the hearing today. It has been very helpful for me.

The CHAIRMAN. Thank you, Mr. Ribble, and thank you for your patience.

Before we adjourn, I would like to invite the Ranking Member to make any closing remarks he might have.

Mr. CARDOZA. Well, first of all, I would like to thank the chair for doing this today. I think this hearing brought to light a number of important issues. Out of all my time in Congress, I have had a great relationship working with the chair and I think that the effort shown here today to try to get to the facts is really something that I very much appreciate, and thank you for the way you conducted the hearing.

There is the old saying in the West, that water is for fighting and whiskey is for drinking. Frankly, in the dairy industry, what Mr. Kozak has tried to do, it reminds me of the water wars in the West because he has tried to get warring factions to come together, and as we see in some of those fights, it is very difficult to do that sometimes. You know, my area is not unanimously embracing this bill by any stretch of the imagination but I have to tell you that I am very proud of the work that Mr. Peterson has done to try and I think that what my colleagues have said here today is, Mr. Chairman, you have really worked hard to try and make this something that takes care of people's issues. I appreciate your work, and I also respect you as an expert in this policy, and I mean that from the bottom of my heart.

Mr. Chairman, I am going to yield back my time, but I just want to thank the folks that have invested so much to try and keep a very vital industry for this country afloat and to smooth out some of the trivial water, and if we are going to do our jobs, we are going to need the information that we asked for today at this hearing. We are going to need every bit of cooperation from all the folks that are assembled here that have listened to this testimony. Thank you.

The CHAIRMAN. Thank you, Mr. Cardoza, and thank you to all of our witnesses, especially Dr. Brown, for complying with our requests at the Committee. I believe this discussion has been very helpful in shedding light on the challenges we face in moving our dairy program forward in this next farm bill. I appreciate every one's participation and civility in today's hearing and look forward to working with all of you as we move forward in the farm bill process.

So with that, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional materials and supplementary written responses from the witnesses to any question that was posed by a Member.

This hearing of the Subcommittee on Livestock, Dairy, and Poultry is now adjourned.

[Whereupon, at 4:36 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY SCOTT BROWN, PH.D., ASSISTANT RESEARCH PROFESSOR, INTEGRATED POLICY GROUP, DIVISION OF APPLIED SOCIAL SCIENCES, COLLEGE OF AGRICULTURE, FOOD AND NATURAL RESOURCES, UNIVERSITY OF MISSOURI

During the April 26, 2012 hearing entitled, *Formulation of the 2012 Farm Bill (Dairy Programs),* a request for information was made to Scott Brown, Ph.D.. The following is his information submission for the record.

Insert

Mr. HUELSKAMP. Would there be any variability between those producers that actively engage using their own risk management tools that they would choose not to participate in the program if they actually manage their own risk?

Dr. BROWN. Certainly that is an option. That is the one thing that you have the choice of how you want to participate in the program since it's voluntary. You know, even those that are really good risk management operations may still choose to participate in the program. It gives them an added risk management strategy to use, more risk management tools in the toolbox.

Mr. HUELSKAMP. And how much variability is there in the industry of those who actually use risk management tools and those that are depending simply on government programs?

Dr. BROWN. Well, we have certainly seen increases in the use of these tools over time but still small in the dairy industry relative to a lot of other segments of agriculture. I think it is an industry that we have had a lot of government support over the long term and it has taken the industry a while to embrace some of those risk management tools that are out there now.

Mr. HUELSKAMP. Those in my sector are heavily dependent on the fed cattle market and there are swings up and down, and we would love to see the comparison of the price volatility. There is obviously no program to deal with that and you try to manage your risk in the futures market and with forward contracts on both your feed and your product as well, and I am just curious about the distinction, how much difference there is in that industry.

Dr. BROWN. I would be glad to try to provide that. Certainly, the cattle industry is seeing ups and downs. You are correct. I think in percentage terms, you look back at 2009 and it is hard to find an industry that lost as much equity as we saw in the dairy industry.

Variance of Agricultural Prices

Agricultural prices have experienced extreme fluctuations over the past decade. There have been many factors that have played a role in this new period of price volatility. Extreme weather, shifts in global demand for U.S. agricultural products, domestic demand variability and disease issues have all played a role in the price volatility agriculture has faced.

One way to measure the level of price volatility is to examine the variance of a price series over a given period of time. Variance is a measure of statistical dispersion indicating how far from the expected value its values typically are. The table below shows the variance in indexed agricultural prices over two recent periods (prices were indexed to their January 2001 level). Crops prices have generally shown the most variance over the past decade.

Figure 1 provides a graphical look at the indexed crop and livestock prices over the last decade. The prices are indexed to the January 2001 level. This graph shows that wheat prices increased by 3.5 times the level they were in January 2001 by early 2008. Milk prices went from over 1.5 times their January 2001 level by late 2007 to about 0.9 times their January 2001 level by mid-2009.

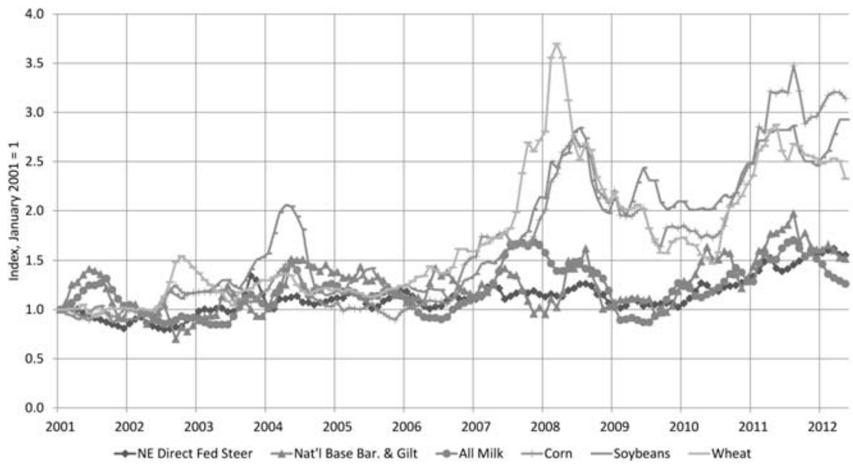
Variance of Indexed Agricultural Prices

	Jan. 2007–May 2012	Jan. 2001–May 2012
NE Direct Fed Steer	0.03	0.03
OK Feeder Steer	0.05	0.04
Nat'l Base Bar. & Gilt	0.07	0.06
12-City Broiler	0.01	0.03
NY Egg, Grade A Lg.	0.07	0.12
All Milk	0.06	0.05
Corn	0.32	0.51
Soybeans	0.17	0.38

Variance of Indexed Agricultural Prices—Continued

	Jan. 2007–May 2012	Jan. 2001–May 2012
Wheat	0.27	0.41
Cotton	0.10	0.11
Rice	0.15	0.50

Figure 1. Indexed Agricultural Prices



SUPPLEMENTARY MATERIAL SUBMITTED BY JON DAVIS, CHIEF EXECUTIVE OFFICER, DAVISCO FOODS INTERNATIONAL, INC.; ON BEHALF OF INTERNATIONAL DAIRY FOODS ASSOCIATION

May 4, 2012

Hon. THOMAS J. ROONEY,
Chairman,
Subcommittee on Livestock, Dairy, and Poultry,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Rooney:

Thank you for the opportunity to provide IDFA's position at the Subcommittee's hearing on dairy policy last Thursday April 26.

During the course of the hearing several members asked questions about the impact of the Dairy Market Stabilization Program (DMSP) on U.S. dairy exports. Ranking Member Dennis Cardoza asked for specific economic analysis that IDFA has conducted.

At the hearing, I shared a recent conversation I had with a potential South Korean customer regarding his concerns that the U.S. cannot be a reliable exporter with a government supply management program in place. Just this week, at a United States Dairy Export Council (USDEC) conference, a major U.S. beverage company executive explained to the audience that sales of a new fluid beverage in China are exploding. That beverage consists of 50% milk but unfortunately the milk is supplied from a source outside the U.S. When asked about the possibility of using U.S. milk, he announced that they do not yet consider the U.S. to be a committed supplier of milk ingredients for export markets.

It is clear that the world is watching to see which path we take, and the supply management debate in Congress is already influencing our existing and potential customers' views.

Last November, six key exporting members of IDFA wrote to Congress regarding their concern over the impact of the proposed Dairy Security Act (DSA) on a growing dairy export business. The letter noted that the very existence of a government supply control program for dairy would be a signal to our competitors and trading partners that the U.S. is not a serious and reliable long term supplier. Proposed changes to the mandatory triggers and definitions used in the DMSP have not changed this fact, and I have included a copy of the letter for the record.

For the record, I am also including a paper by IDFA's Chief Economist Dr. Bob Yonkers. The paper is entitled, *A Look at Dairy Market Price Volatility and Options for Dairy Policy Reform*. Dr. Yonkers analysis was written using data supplied by a FAPRI analysis that was prepared on behalf of the National Milk Producers Federation. One of its key conclusions is that the FAPRI data underestimates the impact of the DMSP on U.S. exports.

Since the introduction of H.R. 3062, the DSA last September, a number of different economic analyses of the DMSP have shown different estimated impacts on U.S. dairy exports. But, none of them consider how U.S. dairy companies like ours will change how we look at export opportunities. The stabilization program will create significant market uncertainty and increase risk calculations for businesses that will discourage future long-term investments into new domestic facilities and new export markets.

Unlike Dr. Brown, IDFA was not provided the details of the Senate dairy title in advance of the hearing and, as such, we were unable to conduct an independent analysis of the Senate proposal for the House hearing.

Thank you for the opportunity to express our views and for this opportunity to respond the Ranking Member's request.

Sincerely,

JON DAVIS,
President and CEO,
Davisco Foods International, Inc.

ATTACHMENT 1

A Look at Dairy Market Price Volatility and Options for Dairy Policy Reform

by BOB YONKERS, PH.D., *IDFA Vice President and Chief Economist*

May 25, 2011

Executive Summary

This paper considers the growth trends in the U.S. milk supply, the commensurate growth in the U.S. share of global dairy trade and proposed options for reducing the milk price volatility that results from participating in global markets. The analysis reveals that the relationship between domestic dairy prices and global dairy prices has fundamentally changed because of increased U.S. commercial dairy exports. Instead of being insulated from global markets, U.S. domestic prices are now following global price changes.

This greater vulnerability to wider price fluctuations in the U.S. dairy market has prompted some to consider new U.S. domestic dairy policies with the goal of reducing domestic milk price volatility. This paper reviews other analyses that note the many shortcomings of such policies used by Canada and the European Union. Recently, the National Milk Producers Federation (NMPF) has proposed a new, mandatory government program to control farm milk growth called the "Dairy Market Stabilization Program," or DMSP. The paper points to recent analyses of the DMSP by the Food and Agricultural Policy Research Institute (FAPRI) and Informa Economics, which show that the DMSP, if implemented, would decrease U.S. dairy exports and increase domestic market price volatility.

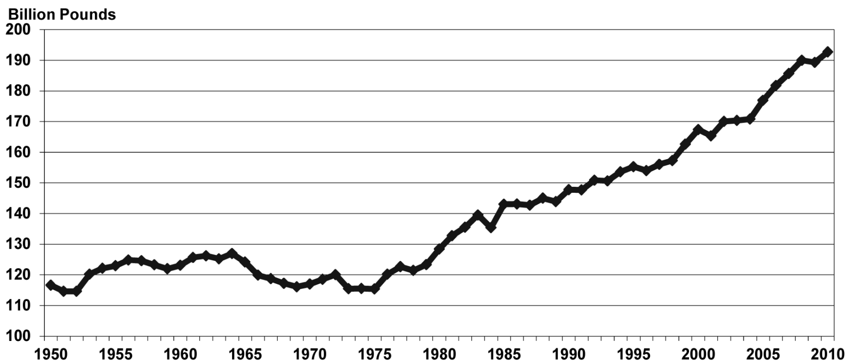
IDFA concludes that dairy policies designed to help farms and firms manage milk price volatility are preferable to policies that attempt to insulate the United States from global dairy price fluctuations. Policies that attempt to manage volatility would limit industry growth and reduce U.S. dairy exports at a cost of thousands of U.S. jobs. Policies that enable dairy producers to manage business risk are consistent with the approach adopted by other U.S. agricultural sectors and would help support a growing U.S. dairy industry.

U.S. Dairy Market Trends

The U.S. dairy market has shown strong and steady growth over the past several decades. Farm milk production in 2010 was 192.8 billion pounds, a record high, providing 1.8% more milk than the prior year, 67% more than 35 years ago in 1975, and 24% more than just 15 years ago in 1995 (source: USDA's National Agricultural Statistics Service).

This production growth, shown in *Figure 1,* allowed the industry to meet increased demand for milk and dairy products, not just domestically but internationally as well. In the decade prior to 2004, U.S. dairy exports averaged less than 5% of U.S. farm milk production and that level was only achieved largely due to export subsidies under the Federal Dairy Export Incentive Program.

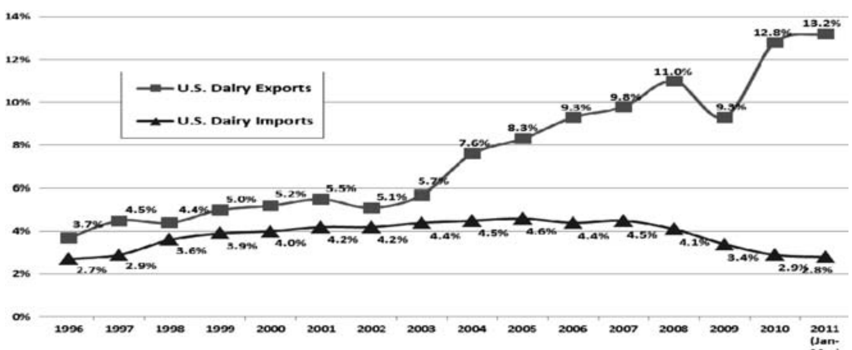
Figure 1: Total U.S. Farm Milk Production, 1950–2010



Source: USDA, NASS.

The U.S. dairy industry's position in international markets since 2003 has grown significantly, as shown in *Figure 2.* During the past 5 years, the United States exported on average more than 10.2% of farm milk production—more than double the average amount in previous years—and exports accounted for a record 12.8% of farm milk production in 2010 (source: U.S. Dairy Export Council). And, unlike prior to 2004, nearly all these U.S. dairy product exports occurred without the help of government export subsidies.

Figure 2: U.S. Dairy Trade Balance: Exports and Imports as a Percentage of Total Milk Solids Production

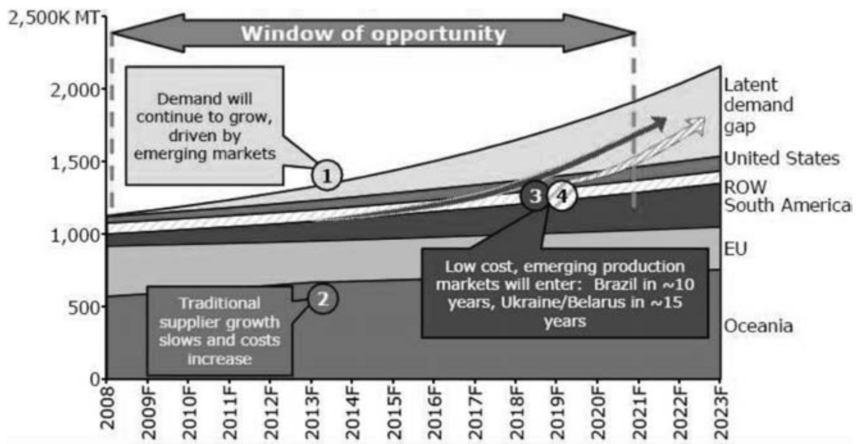


Source: U.S. Dairy Export Council.

By value, dairy exports have increased from about $1 billion in 2000 to over $3.5 billion in 2010, an increase that has continued so far in 2011. Although job creation numbers are difficult to quantify, the Foreign Agriculture Service of the U.S. Department of Agriculture recently estimated that 8,400 jobs are created for every $1 billion increase in agriculture exports. Applied to the increase in dairy exports, this formula estimates that more than 20,000 new jobs were created in the last decade by dairy export growth.

But will this world demand for dairy products continue? A recent study by Bain and Co., commissioned in 2009 by the Innovation Center for U.S. Dairy and funded by the dairy producer check-off program, concluded that it would. In fact, demand in many countries will outstrip the available farm milk supply, creating a demand gap that can only be filled by increasing world trade in dairy products. The study noted that the U.S. dairy industry is uniquely positioned to take the lead in filling the expected gap, which would significantly increase its share of the growing world dairy product trade (Read "The Impact of Globalization on the Dairy Industry: Threats, Opportunities and Implications" here:*http://www.usdairy.com/Globalization/GlobalImpactStudy/Pages/BusinessCase.aspx*.)

Global Dairy Net Trade: Milk Protein



Source: "World Trade Trends 2008", USDEC; FAPRI.

U.S. Share of World Trade in Dairy Products Is Growing

Prior to 2004, U.S. dairy market prices were often higher than world dairy market prices, which would explain why U.S. dairy exports usually required government export subsidies. Although the higher prices resulted from a combination of factors, some key reasons stand out:

- other countries, especially European Union members, relied heavily on export subsidies,
- domestic dairy policies encouraged large government-owned inventories of dairy products (especially in the European Union and the United States), and
- world trade in dairy products was relatively limited.

So, what has changed? As early as 2003, world demand for dairy products began to outstrip the supply of farm milk, but large government-owned inventories of butter and milk powders, due to intervention dairy policies, temporarily filled the gap. Those government-owned cupboards were empty by late-2006, but the strong demand continued, resulting in record-high farm milk prices around the globe in 2007 and 2008.

Since 2006 nearly all world trade in dairy products has consisted of commercial, not government-subsidized, sales. Government export subsidies were no longer needed. Another benefit of this change, which is rarely cited, is that U.S. dairy market prices are no longer consistently higher than world dairy prices, which has caused a steady decline of imported dairy products into the United States since 2007 (see *Figure 2*).

The U.S. dairy industry has taken advantage of the opportunity to increase its share of the international commercial market by exporting more dairy products. With a mature domestic market for dairy products, the U.S. dairy industry may find that increasing dairy exports is the only path to significant growth in coming years.

However, the export growth and resulting higher farm milk prices also brought increased price volatility stemming from changes in world dairy market prices. The world financial crisis and the U.S. economic recession, which began in 2008 and battered markets in 2009, hurt U.S. domestic demand for dairy products and curtailed global demand for U.S. exports.

Although U.S. dairy exports dropped in 2009, the decline was only partially due to economic hard times. By the summer of 2009, low milk prices also triggered USDA to begin purchasing U.S. dairy products under the Dairy Product Price Support Program. When world prices dropped below these support prices, U.S. exports dropped as well. Because the government policy manipulated domestic prices to be above world prices for a few months in early 2009, it effectively limited price volatility at the expense of reduced dairy exports.

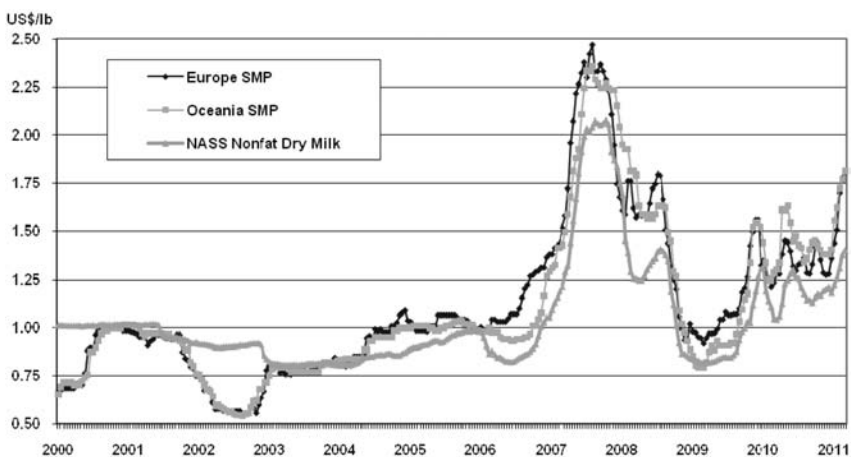
World Dairy Market Price Volatility Is the Root Cause of U.S. Dairy Price Volatility

U.S. dairy market price volatility in recent years is not caused by domestic dairy market factors or broader domestic economic conditions. Rather, U.S. dairy market price changes in recent years are almost entirely due to volatility in world dairy market prices. Increased participation in export markets has made the U.S. industry subject to international price swings, which bring higher prices at times and lower prices at times.

This conclusion is supported by data from USDA's Agricultural Marketing Service (AMS), which reports world dairy market prices on a biweekly basis for the major dairy products in world trade for two regions, Europe and Oceania. USDA's National Agricultural Statistics Service (NASS) publishes data each week on the U.S. domestic market prices for four of those major dairy products.

Figure 3 shows these data for milk powder. (Note: Skim milk powder, or SMP, is the standard for international markets, but in the U.S. domestic market the standard is nonfat dry milk, or NFDM.) Prior to 2004, the U.S. domestic market price was often higher than the world market price; in fact, when world market prices fell to low levels, the U.S. domestic market price barely moved. Why? Because the U.S. government stepped in to prevent domestic market prices from moving lower by purchasing NFDM under the Dairy Product Price Support Program. Between 2000 and early 2004, USDA spent on average $500 million per year buying NFDM.

Figure 3: World and U.S. Market Prices for Powdered Milk



Source: USDA, AMS; mid-point of reported price range, and USDA, NASS.

Beginning in 2004, however, the U.S. domestic market price for NFDM has nearly always been at or below the world market price for SMP. Since then, every time the world market price increases, the domestic market price follows, and when the world market price declines, the domestic price falls as well. The primary reason that the domestic price has been lower since 2004 is that dairy importing nations are geographically closer to competitors in Europe and Oceania (Russia and the Middle East for the former, the growing economies in Southeast Asia for the latter), so transportation costs are greater for U.S.-sourced product. With some variation in the trends, this same pattern exists for other dairy products traded internationally as well.

Implications for U.S. Dairy Policy

Although the dairy industry's ability to use its vast resource base to increase milk production emerged in the mid-1970s, the record growth in the past 5 years stemmed from increased global demand and new overseas market opportunities for U.S. dairy products. Without this growth, the significant climb in U.S. milk production would not have occurred.

The United States now has transitioned from a dairy importer to a major dairy exporter. In addition to one key benefit—increased sales—what are the implications of this evolution?

Price volatility in the U.S. domestic market is inextricably tied to price volatility in the world dairy market. Therefore, it is important to consider how dairy polices that are designed to reduce or eliminate domestic price volatility would affect the industry's ability to continue to be a major exporter.

Here are two examples.

1. The European Union has, for the past few decades, controlled domestic markets with farm milk quotas while remaining a major dairy exporter. The EU's policies allowed commercial exporters to sell their products at much lower world market prices by implementing extensive export subsidies, known as variable levies, to make up the price difference. The EU is now phasing out these programs, and the United States could not adopt similar ones without violating international trade obligations under the World Trade Organization (WTO).

2. The strict farm milk quota system enforced in Canada offers another method for insulating the domestic dairy industry from world price volatility. While the system has reduced, but not eliminated, dairy price volatility in the Canadian domestic dairy market, it has harmed industry growth. A recent study conducted for IDFA by Informa Economics found that farm milk quotas in Canada led to much higher consumer dairy product prices, lower per capita consumption of dairy products, fewer exports of dairy products and more imports of dairy products. (Read "An International Comparison of Milk Supply Control Programs and Their Impacts" here: *http://www.keepdairystrong.com/files/Informa__International__Comparison__Supply__Control__Impacts__0910.pdf*.)

The National Milk Producers Federation (NMPF) has proposed another option, called the Dairy Market Stabilization Program (DMSP), with the goal of moderating domestic price volatility. In its explanation of the DMSP, NMPF asserts that one of its key guiding principles is that the program will "not encourage imports or negatively affect exports." Later NMPF directly claims that the DMSP will actually "encourage exports" and "discourage imports." Recent analyses, however, show that the DMSP is not consistent with NMPF's guiding principles and claims. Let's look at the data.

A recent study by the Food and Agricultural Policy Research Institute (FAPRI) analyzed the DMSP proposal in a report first published in early March. (Read "The Economic Impact of the Dairy Market Stabilization Program on 2009 Dairy Markets" here: *http://www.fapri.missouri.edu/outreach/publications/2011/FAPRI__MU__Report__04__11.pdf*.) This study predicted the month-to-month impact on the U.S. dairy industry if the DMSP had been enacted prior to 2009. However, the only study results included in the report focused on the impact of the program on farm milk prices. Following a request by IDFA, the authors later added a link to an appendix table with additional data that presented quite a different picture. (View "Appendix Table 1. Effects of DMSP on 2009 Dairy Product Markets" here: *http://www.fapri.missouri.edu/outreach/publications/2011/FAPRI__MU__Report__04__11__Appendix.pdf*.)

The original FAPRI study was widely touted by NMPF as confirming the positive benefits of the Dairy Market Stabilization Program for the U.S. dairy industry. A closer look at some of the other results in the appendix table, however, reveals negative aspects of the DMSP. The appendix table also is attached to this report as *Appendix 1*.

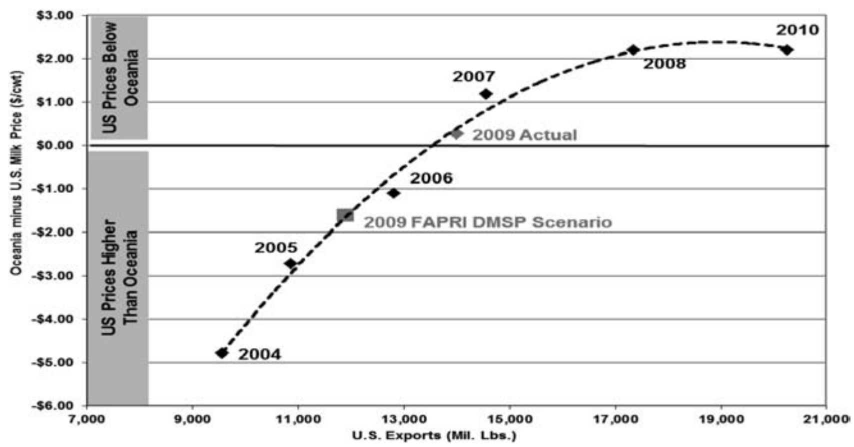
Stabilization Program Would Reduce U.S. Exports

Contrary to NMPF's claim that the program would encourage exports, the additional FAPRI appendix data directly predicts that U.S. dairy exports would have dropped significantly if the DMSP had triggered limits to farm milk production during the dates reviewed. Study results from the appendix table show that during 3 months—March, April and May of 2009—U.S. exports of nonfat dry milk would have fallen by 38%, butter exports by 16.4% and American cheese exports by 8%.

In addition, the FAPRI data likely underestimates the impact of the DMSP on U.S. exports. In recent years, the domestic dairy market prices for these products have rarely been higher than world market prices. The last time the actual U.S. market price for NFDM was more than 3¢ above the world SMP price per pound was in the fall of 2003 (see *Figure 1*). The FAPRI study of the DMSP program indicates that domestic prices could be as much as 50¢ above the actual world price (and for 3 full months could remain at least 9¢ above the price for SMP sourced out of Oceania) and only result in a decline in U.S. exports of 38%. FAPRI study results for butter and cheese similarly indicate that U.S. domestic prices could rise far higher above world market prices than seen in recent years, yet the report estimates only a modest impact on U.S. dairy product exports.

It is likely that the program would have caused even greater declines in U.S. milk powder exports if it had been in place in 2009. A recent analysis by Informa Economics for IDFA analyzed the difference between world and domestic U.S. dairy market prices and its relationship to the level of U.S. dairy product exports. That analysis concluded that, given the impact on domestic dairy market prices reported in the FAPRI appendix table, U.S. dairy product exports would have fallen by more than a 2 billion pound milk equivalent (a drop of over 14%) if the DMSP had been in place as dairy policy in 2009. (See *Figure 4,* taken from "Response to Criticisms of Informa's DMSP Study," which is available here: *http://www.keepdairystrong.com/files/IDFA%20Response%20to%20Criticism%20of%20Informa%20DMSP%20Study.pdf*.)

Figure 4: U.S. Milk Equivalent Exports *vs.* Price Spread to Oceana



Source: Informa Economics.

Although the FAPRI data alone would translate to U.S. job losses in the hundreds, a 14% decline in exports in 2009 would have resulted in losses of more than $300 million in dairy exports and a loss of nearly 2,000 jobs. More important, the inability of U.S. dairy exporters to be reliable and consistent would have encouraged importing nations to look elsewhere, likely causing a long-term systematic reduction in dairy exports. It's clear that the DMSP would discourage investment in processing capacity in the United States with similar long-term results in export capacity, particularly if program regularly triggered off and on, as expected.

Stabilization Program Would Increase Domestic Price Volatility

Another key finding noted in the FAPRI study appendix table shows that U.S. dairy market prices would be much more volatile when the DMSP would trigger actions to limit farm milk production. This program, intended to stabilize prices, actually would work to destabilize them. *Figures 5* to *7* show the appendix table data measuring the impact of the DMSP on wholesale dairy product prices in the United States.

Figure 5: FAPRI Study Impact of DMSP On U.S. Wholesale Nonfat Dry

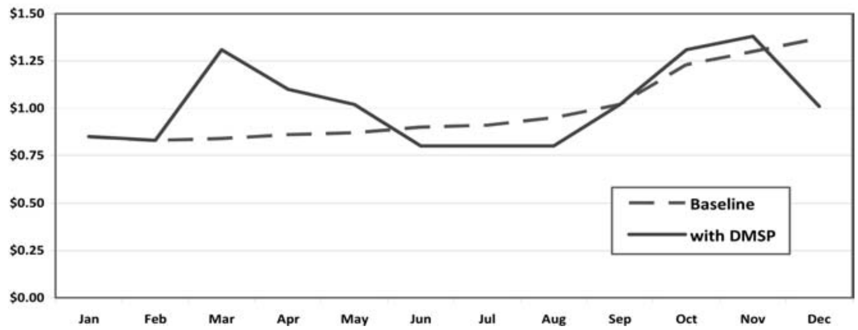


Figure 6: FAPRI Study Impact of DMSP On U.S. Wholesale Butter Price

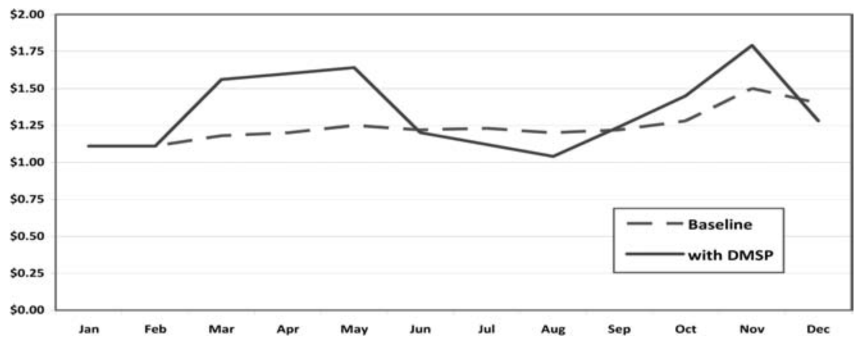
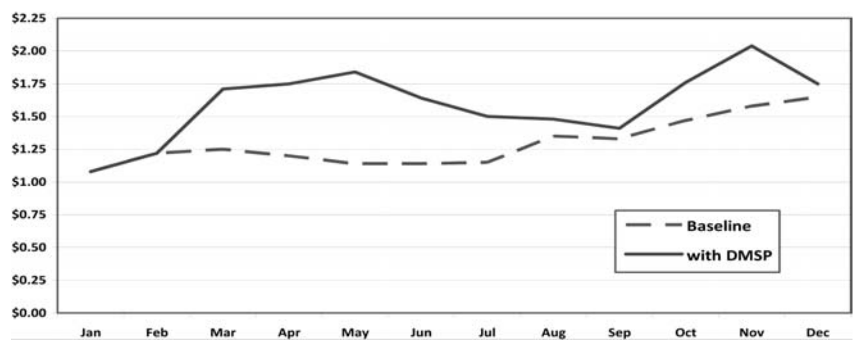


Figure 7: FAPRI Study Impact of DMSP On U.S. Wholesale Cheese Price



A Better Dairy Policy Option: Risk Management Tools for Producers

Dairy programs that attempt to limit price volatility by controlling milk production—regardless of whether they are called quotas or stabilization or growth management—clearly would have a negative impact on U.S. dairy exports. And, because they manipulate domestic prices above international prices, these programs also could add to domestic milk price volatility. If such programs were adopted in the United States, they would remove the industry's primary opportunity for growth at a loss of potentially thousands of U.S. jobs and likely hasten the consolidation of production into fewer and fewer facilities.

There are, however, more-effective and less-intrusive policy options available and in use by other industries today. Risk management tools, widely accepted and successfully utilized by other commodities, for example, are underutilized by the U.S. dairy industry.

In fact, a recent report, "*Price Volatility in Food and Agriculture Markets: Policy Responses,*" authored by a collaboration of international agencies,[1] concurs that government efforts to control volatility have significant negative impacts. The report notes that agricultural policies designed to insulate domestic prices from world markets actually "increase world price volatility" and that "policies that distort production and trade in agricultural commodities potentially impede the achievement of long run food security." The report recommends policies offering a broader set of fiscal risk-management services, including facilitating commodity hedging, providing risk-management education and offering disaster or catastrophic risk insurance.

IDFA concludes that dairy policies and programs designed to enable dairy producers to better manage milk price volatility are preferable to policies that attempt to insulate the United States from global price variation. Risk-management policies are consistent with the approach adopted by other U.S. agricultural sectors to expand U.S. trade and support a growing production base.

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[1] FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI, and the UN HLTF. Available here: *http://ictsd.org/downloads/2011/05/finalg20report.pdf*.

attachment

Appendix Table 1. Effects of DMSP on 2009 Dairy Product Markets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
(Dollars per Pound)													
Cheese Wholesale Price													
Baseline	1.08	1.22	1.25	1.20	1.14	1.14	1.15	1.35	1.33	1.47	1.58	1.65	1.30
Scenario	1.08	1.22	1.71	1.75	1.84	1.64	1.50	1.48	1.41	1.76	2.04	1.75	1.60
Change	0.00	0.00	0.46	0.54	0.70	0.50	0.35	0.13	0.08	0.29	0.46	0.10	0.30
Butter Wholesale Price													
Baseline	1.11	1.11	1.18	1.20	1.25	1.22	1.23	1.20	1.22	1.28	1.50	1.40	1.24
Scenario	1.11	1.11	1.56	1.60	1.64	1.20	1.12	1.04	1.24	1.45	1.79	1.28	1.34
Change	0.00	0.00	0.39	0.39	0.39	−0.03	−0.12	−0.16	0.02	0.16	0.29	−0.12	0.10
Nonfat Dry Milk Wholesale Price													
Baseline	0.85	0.83	0.84	0.86	0.87	0.90	0.91	0.95	1.02	1.23	1.30	1.37	0.99
Scenario	0.85	0.83	1.31	1.10	1.02	0.80	0.80	0.80	1.02	1.31	1.38	1.01	1.02
Change	0.00	0.00	0.47	0.24	0.15	−0.10	−0.11	−0.15	0.00	0.08	0.08	−0.35	0.03
(Dollars per Cwt)													
Class III Price													
Baseline	10.78	9.31	10.44	10.78	9.84	9.97	9.97	11.20	12.11	12.82	14.08	14.98	11.36
Scenario	10.78	9.31	12.75	15.79	15.99	15.84	14.04	13.45	13.09	14.61	17.77	17.72	14.26
Change	0.00	0.00	2.31	5.01	6.15	5.87	4.07	2.25	0.98	1.79	3.69	2.74	2.91
Class IV Price													
Baseline	9.59	9.45	9.64	9.82	10.14	10.22	10.15	10.38	11.15	11.86	13.25	15.01	10.89
Scenario	9.59	9.45	12.48	14.52	13.45	11.19	9.31	9.04	10.22	12.62	14.92	14.23	11.75
Change	0.00	0.00	2.84	4.70	3.31	0.97	−0.84	−1.34	−0.93	0.76	1.67	−0.78	0.86
U.S. All Milk Price													
Baseline	13.30	11.60	11.70	11.90	11.60	11.30	11.30	12.10	13.00	14.30	15.40	16.50	12.83
Scenario	13.30	11.60	13.19	15.83	16.40	15.10	13.47	13.04	13.31	15.12	17.52	18.19	14.67
Change	0.00	0.00	1.49	3.92	4.79	3.79	2.17	0.94	0.31	0.82	2.12	1.69	1.84
(Millon Pounds)													
Butter Exports													
Baseline	2.63	2.69	2.12	2.44	3.19	2.52	1.18	1.49	4.78	7.97	10.69	7.75	49.45
Scenario	2.63	2.69	1.83	1.99	2.66	2.26	1.12	1.58	4.81	7.87	10.43	7.70	47.58
Change	0.00	0.00	−0.29	−0.45	−0.53	−0.26	−0.05	0.09	0.03	−0.10	−0.27	−0.06	−1.87
American Cheese Exports													
Baseline	5.20	4.91	5.07	4.68	5.08	6.17	5.51	5.88	5.34	5.47	5.88	7.78	66.98
Scenario	5.20	4.91	4.80	4.30	4.58	5.75	5.20	5.73	5.26	5.29	5.57	7.65	64.23
Change	0.00	0.00	−0.28	−0.39	−0.51	−0.42	−0.30	−0.15	−0.08	−0.19	−0.31	−0.13	−2.75
Nonfat Dry Milk Exports													
Baseline	48.36	27.84	34.68	39.64	44.66	44.95	62.11	62.61	43.60	64.54	43.70	31.89	548.57
Scenario	48.36	27.84	21.70	23.46	28.61	35.78	58.19	63.73	44.34	62.81	40.14	38.81	493.77
Change	0.00	0.00	−12.97	−16.18	−16.05	−9.17	−3.92	1.12	0.74	−1.73	−3.56	6.92	−54.81

Source: FAPRI.

About the Author:

Robert Dean Yonkers, Ph.D., Vice President and Chief Economist, oversees the research and analysis of the economic impact of marketing conditions, government regulations and alternative policies on the U.S. and international dairy industries. Before joining IDFA, Yonkers was a tenured faculty member at The Pennsylvania State University, where he conducted research and developed educational programs on the profitability and economic sustainability of the state's milk producing, marketing and processing sectors. Yonkers serves on the Agricultural Technical Advisory Committee for Animals and Animal Products, an advisory body that provides information and advice to U.S. cabinet officials. An active member of the International Dairy Federation's Standing Committee on Dairy Policies and Economics, he was elected chairman in 2009. Yonkers also serves on the Agricultural Advisory Committee to the U.S. Commodity Futures Trading Commission and the Board of Directors for the Council on Food, Agricultural and Resource Economics.

About IDFA

The International Dairy Foods Association (IDFA), Washington, D.C., represents the nation's dairy manufacturing and marketing industries and their suppliers, with a membership of 550 companies representing a $110 billion a year industry. IDFA is composed of three constituent organizations: the Milk Industry Foundation (MIF), the National Cheese Institute (NCI) and the International Ice Cream Association (IICA). IDFA's 220 dairy processing members run more than 600 plant operations, and range from large multi-national organizations to single-plant companies. Together they represent more than 85 percent of the milk, cultured products, cheese and frozen desserts produced and marketed in the United States.

ATTACHMENT 2

November 3, 2011

Hon. PATRICIA MURRAY, *Chairwoman,* Joint Select Committee on Deficit Reduction, U.S. Senate, Washington, D.C.;	Hon. JEB HENSARLING, *Chairman,* Joint Select Committee on Deficit Reduction, U.S. House of Representatives, Washington, D.C.

Dear Chairwoman Murray and Chairman Hensarling,

We are writing to express our concern and opposition to a pending milk supply control policy called the Dairy Market Stabilization Program that is being endorsed by the leadership of the House and Senate Agriculture Committees for inclusion into the deficit reduction bill to be considered by Congress before the end of the year.

Our companies manufacture dairy products, primarily cheese and associated whey products, and we are proud to be leading a growing and successful effort to greatly expand dairy exports. Over the past decade, U.S. exports have grown by nearly $3 billion and U.S. dairy manufacturers now export the equivalent of nearly 14% of the farm milk produced in our country in the form of dairy products like those we manufacture.

The Dairy Market Stabilization Program, found in H.R. 3062 as introduced by Representative Collin Peterson, puts this growth at risk. The program would give the U.S. Department of Agriculture new authority to regulate farm milk checks in order to reduce the U.S. milk supply under certain conditions. The sole purpose of this program is to raise domestic milk prices, when triggered by weak farm profits, regardless of the global supply and demand situation for dairy products. As a result, consumers will pay higher prices for dairy products.

Different economic analyses of the Dairy Market Stabilization Program have shown different estimated impacts on U.S. dairy exports. But, none of them consider how U.S. dairy companies like ours will change how we look at export opportunities. The very existence of a government supply control program for dairy will be a signal to our competitors and trading partners that the U.S. is not a serious and reliable long term supplier. The stabilization program will create significant market uncertainty and increase risk calculations for our businesses that will discourage future investment into new domestic facilities and new export markets.

Studies like the Bain Report have found that the U.S. is uniquely situated to expand its dairy exports. However, we need to have the right dairy policies in place in order to take advantage of this major opportunity for growth and job creation for our country.

We strongly believe that the Dairy Market Stabilization Program will have a negative impact on dairy exports, cannot be fixed by turning it off after exports start declining, and should not be part of a bill whose purpose is to reduce Federal deficit spending.

We would be pleased to meet with you at your earliest convenience to discuss our concerns in greater detail.

Very truly yours,

JON DAVIS,
COO,
Davisco Foods International, Inc.;

JEFF WILLIAMS,
President and CEO,
Glanbia Foods;

JOHN JETER,
CEO and President,
Hilmar Cheese Company;

TERRY BROCKMAN,
President,
Saputo Cheese USA Inc.;

LOU GENTINE,
Chairman & CEO,
Sargento Foods Inc.;

ROBERT D. BYRNE, PH.D.,
Director—Industry and Regulatory Affairs,
Schreiber Foods, Inc.

CC:

Senator MAX BAUCUS
Representative XAVIER BECERRA
Representative DAVID CAMP
Representative JAMES CLYBURN
Senator JOHN KERRY
Senator JON KYL
Senator ROBERT PORTMAN
Senator PATRICK TOOMEY
Representative FRED UPTON
Representative CHRIS VAN HOLLEN

SUBMITTED STATEMENT BY HON. REID J. RIBBLE, A REPRESENTATIVE IN CONGRESS FROM WISCONSIN; ON BEHALF OF STEVE ETKA, COORDINATOR, MIDWEST DAIRY COALITION

Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee:

I am Steve Etka, Coordinator of the Midwest Dairy Coalition, an alliance of dairy cooperatives based in the Upper Midwest that collectively represents nearly 11,000 dairy farmers, or about 20 percent of the dairy farmers in the nation. On a regional basis, the Coalition's membership represents a majority of the Upper Midwest dairy farmers.

As you prepare to craft the provisions of the 2012 Farm Bill, I thank you for this opportunity to provide testimony. The Midwest Dairy Coalition greatly appreciates all this Committee has done over the last couple of years to work with the dairy industry. Along with your counterparts in the Senate, you put together a far-reaching package of dairy reforms to help the dairy sector better weather economic storms of the future, and to temper some of those storms. We particularly appreciate the tireless work of Congressman Collin Peterson in spearheading that effort and for the work of Congressmen Reid Ribble and Tim Walz for advocating for the needs of Upper Midwest dairy farmers throughout this process.

The Senate Agriculture Committee recently released its farm bill draft. I am pleased to share that the Midwest Dairy Coalition is supporting the Senate dairy provisions. It is my understanding that those provisions are the product of collaboration with the House Agriculture leadership, as well.

When Congressman Peterson introduced the Dairy Security Act in October of last year, we had some concerns. Without a doubt, the Coalition members felt the original DSA made many important dairy reforms to address the realities of higher input costs that dairy farmers are currently facing relative to 2008, when the last

Farm Bill was enacted. However, we were concerned that the bill did not do enough to address the economic needs of the majority of dairy farmers in the Upper Midwest, or to provide an adequate safety net for producers transitioning from the Milk Income Loss Contract (MILC) Program. Further, we were concerned that the Federal Milk Marketing Order provisions of the bill would exacerbate existing regional inequities of the current system, making matters worse instead of better.

I am very pleased that the House and Senate Agriculture Committee leadership worked with us, and others, in the dairy industry in support of changes to the original DSA legislation to address our concerns.

Specifically, we requested that:

(1) the Federal Milk Marketing Order provisions be removed, and the package remain free of any FMMO provisions that artificially deflate the value of milk used for manufactured dairy products;

(2) a two-tier premium structure be added to the Supplemental Margin Protection Program provisions, whereby there would be lower premiums for the first 4 million pounds of a producer's annual production. Not only would this reduce the cost of margin insurance for all participating dairy farmers, it would be particularly helpful in encouraging Midwest dairy producers to buy up to adequate margin protection levels, to help in the transition from the Milk Income Loss Contract (MILC) Program, which is eliminated under the base DSA bill.

We were very pleased to find that others in the dairy industry agreed with our concerns, and these changes are now part of the dairy package that is included in the Senate farm bill draft. We recognize that even the Senate dairy package is a work in progress, and that efforts are still underway to address changes in feed-cost calculations made as a result of recent changes in CBO scoring parameters. We look forward to continuing to work with both Committees as you seek to address this dynamic in a way that continues to provide a credible safety net for the nation's dairy producers.

I would also like to mention the debate about the stabilization provisions of the dairy package. The dairy industry in recent years has been plagued by milk price volatility. The wide swings in prices paid to dairy farmers have brutalized our producers. Under the leadership of National Milk Producers Federation, the industry came together to debate ways to address the volatility problem. The stabilization provisions that are included in the negotiated dairy package have been the source of much debate.

We have had very diverse opinions within the Midwest Dairy Coalition membership about growth management provisions. But like the rest of the dairy industry, the Coalition had to reach a compromise on the stabilization issue because of its importance within the overall reform package and the need to address price volatility. The voluntary nature of the current stabilization provisions, whereby producers who sign up for the subsidized margin protection program must also agree to participate in the stabilization program, helped forge a compromise. We are encouraged that the current dairy package reinforces that a producer's production base under the Dairy Market Stabilization Program would be a temporary, rolling base, and would not limit a producer's long-term production decisions and options. For a region like the Upper Midwest, where at times plant capacity exceeds our milk supply, this flexibility is critical.

We have also encouraged the inclusion of provisions to allow for a continued safety net for dairy producers in the interim period following passage of the new dairy legislation. This would allow time for USDA implementation. As a practical matter, the complexity of establishing an entirely new dairy program could result in delays in implementation.

We are pleased that the Senate dairy provisions provide farmers the option of continuing under the MILC program, until the new program is up and running. This will help minimize disruption and confusion during this interim period.

Last, it is particularly critical for dairy farmers that Congress reauthorize the farm bill this year. Dairy is in a somewhat different position than other farm bill programs, in that the MILC program steps down to a significantly lower level of support on August 31, 2012, 1 month prior to the expiration date of the rest of the farm bill. If Congress is unable to meet the farm bill authorization deadline of September 30th of this year, there may be pressure to extend the farm bill by 1 year to allow more time for negotiations. But that outcome would be unacceptable to dairy producers, because a 1 year extension of the stepped-down MILC program would be significant reduction in the safety net for dairy producers.

Therefore, we look forward to working with this Committee as you start drafting your version of the farm bill. We thank you for tireless work on needed dairy reforms, to date, and look forward to working with you toward a farm bill enactment this year.

SUBMITTED LETTER BY HON. REID J. RIBBLE, A REPRESENTATIVE IN CONGRESS FROM WISCONSIN; ON BEHALF OF LAURIE FISCHER, EXECUTIVE DIRECTOR, DAIRY BUSINESS ASSOCIATION OF WISCONSIN

April 23, 2012

Hon. FRANK D. LUCAS,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Lucas:

The Dairy Business Association (DBA) is an industry organization comprised of Wisconsin dairy producers, processors and allied corporate members. Our mission is to promote the growth and success of all dairy businesses. We are compelled to voice our concerns over the inclusion of the Dairy Security Act (DSA) in the upcoming farm bill. The supply management provision within DSA would substantially harm dairy farms in Wisconsin and throughout the nation. Wisconsin's dairy industry generates $26.5 billion in economic activity and employs over 146,000 Wisconsin residents. Due to the scope of the dairy industry's integration with other sectors, it plays an integral role in the health of Wisconsin's economy.

While some of the provisions of the DSA are necessary, the inclusion of any form of supply controls (whether voluntary or mandatory) in the farm bill will harm dairy producers and processors in Wisconsin and, ultimately, harm our nation's ability to compete in the global marketplace. Wisconsin dairy processors are currently reporting a milk deficit of 10 percent. This means, in order to operate at full capacity and meet consumer demand, Wisconsin cheese plants must import milk. We are already experiencing a milk deficit; our dairy processors cannot afford to have milk production artificially limited.

To counteract this problem, Wisconsin's Governor just announced a new program to help dairy farmers increase their milk production. The Grow Wisconsin Dairy 30x20 program has been designed with the goal of increasing milk production in Wisconsin to 30 billion pounds of milk by the year 2020. The supply management provision within DSA directly contradicts our state's goals.

The Secretary of Wisconsin's Department of Agriculture, Trade and Consumer Protection, Ben Brancel, indicated in his November 3, 2011 letter to the leaders of the Agriculture Committees that, "A national dairy policy which allows the market to determine prices paid is preferable to a government program which tries to stabilize prices or maintains a certain price." DBA members agree with Secretary Brancel's stance.

Clearly, the Governor and his Secretary believe allowing farmers to modernize and expand their businesses to meet both domestic and foreign demand is the right direction for dairy policy. Even an economic analysis of DSA performed by Professors Mark Stephenson and Charles Nicholson indicated the harm supply management would cause. This analysis estimated that under the DSA, dairy producers could lose between $.60 to $1.83 per hundredweight on all the milk they sell. This would be devastating for an industry that is forced to rely on numerous variables, some which are out of their control, to be profitable.

As you lead the House Agriculture Committee through the drafting of the farm bill, we respectfully ask for the inclusion of an alternative dairy proposal that contains margin protection coverage, but eliminates supply controls. This proposal will provide much needed risk management tools to help the dairy industry and is far less disruptive than supply management proposals.

I sincerely appreciate the challenges you face in meeting the budget constraints of the farm bill. DBA respectfully requests for the enactment of national dairy policies that rely on market forces, not government policies, to determine where, when and how much milk will be produced.

Sincerely,

Laurie Fischer

LAURIE FISCHER,
Executive Director.

CC:

Hon. COLLIN C. PETERSON,
Ranking Minority Member,
Wisconsin's Federal Delegation

FORMULATION OF THE 2012 FARM BILL (SPECIALTY CROP AND NUTRITION PROGRAMS)

WEDNESDAY, MAY 8, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NUTRITION AND HORTICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 11:02 a.m., in Room 1300 of the Longworth House Office Building, Hon. Jean Schmidt [Chairwoman of the Subcommittee] presiding.

Members present: Representatives Schmidt, King, Rooney, Crawford, Lucas (*ex officio*), Baca, Pingree, Sablan, Peterson (*ex officio*), and McGovern.

Staff present: John Goldberg, Tamara Hinton, Pam Miller, Mary Nowak, Matt Perin, Patricia Straughn, Wyatt Swinford, Suzanne Watson, John Konya, Nathaniel B. Fretz, Keith Jones, Lisa Shelton, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. JEAN SCHMIDT, A REPRESENTATIVE IN CONGRESS FROM OHIO

The CHAIRWOMAN. Thank you, everybody. We are going to call this hearing to order. I want to thank you for coming to review title X, specialty crop programs; and title IV, nutrition programs, to help us prepare for the farm bill. I thank all of our witnesses for joining us today and I look forward to hearing your insightful testimony. I also want to thank my friend, Ms. Pingree, for joining me today in this hearing. It is well known that a certain degree of comity and bipartisanship exist here on the Agriculture Committee and I look forward to working with my friends on the other side as we go through this farm bill process.

Today's hearing will cover two separate components of the farm bill: specialty crop and nutrition programs. But I would like to point out that they are closely intertwined. I believe having a diet that is full of specialty crop products can lead to a more nutritious and healthy lifestyle.

To start the farm bill process, the Agriculture Committee held 11 audit hearings last year with the USDA agencies as the main witnesses. I enjoyed the homework that Chairman Lucas gave Agriculture Committee Members so that we would have a firm understanding of the programs within the framework on the farm bill. Last summer, this Subcommittee held farm bill audit hearings and heard from Agricultural Marketing Service and Animal and Plant

Health Inspection Service about how they operate title X specialty crop programs. Similarly, we heard from the Food Nutrition Service on how it operates the title IV nutrition and feeding programs. I believe the review of how the programs are being administered and operated gave Members of this Subcommittee a bedrock of understanding. I appreciate the opportunity to learn as much about individual programs before the farm bill hearings begin.

As we undertake the important task of crafting our nation's farm policy in writing the farm bill, it is impossible to ignore the tough fiscal situation we find ourselves in. With soaring deficits and unfathomable national debt, we must be mindful of this grave financial situation. In order for us to reauthorize and craft responsible farm programs, it is our duty and responsibility to ensure that every dollar being spent is a wise dollar being spent. Continuing to throw money at programs that are inefficient, duplicative, or wasteful would be a gross abuse of the taxpayer dollars and taxpayer trust.

Farm programs and feeding programs have had unusually high profiles in recent months. First, back in the fall, the Agriculture Committee was a target of possible cuts from the Super Committee and the ag community was proactive in offering budget savings. And now we find ourselves again in the center of the budget-cutting debates. We were instructed to find $33 billion in savings by the House Budget Reconciliation instructions and we were debating those recommendations on the House Floor this week.

We on the Agriculture Committee are in a unique position in writing the next farm bill. With 37 programs that have no baseline funding and public demanding that we spend less, I respect Chairman Lucas' belief that there are no sacred cows in the farm bill and that every program is on the table. I believe that during our farm bill audit process, we were able to identify programs and policies that could use further scrutiny.

I welcome all of our witnesses this morning and look forward to their testimony. The first panel will include growers and representatives of the specialty crop community. We have a diverse variety of crop representatives from Florida's citrus industry, nursery and landscape plants from the Southeast, California's vegetable growers and packers, and fruit and vegetable growers from my native State of Ohio, and an organic grower from Maine. I am interested in hearing the panelists' thoughts on how they use the Specialty Crop Block Grant Program and the opportunities that funding opens to producers. I am impressed at the range of diverse projects that this program funds from research to marketing and promotion as well as pest and disease control.

I would argue that giving the states the ability to approve grants based on local needs and circumstances has been a success. I also look forward to hearing producers' viewpoints on how the Plant, Pest, and Disease Program works for them in early plant pest detection, surveillance, and response. I want to know and learn about the challenges and successes that are in this program, as well as in the well regarded Clean Plant Network. It is of the utmost importance that American producers are able to meet the threats head-on from disease, pest, and pathogens, and this program is essential to that effect.

We certainly face a challenge in how we continue this Specialty Crop Research Initiative. As we are all aware, this program has no baseline funding going forward in the next farm bill. Capitalizing on successful collaboration between universities, growers, agencies, and grower associations from SCRI will be a concern of this Committee's moving forward. Though SCRI is not technically in this Subcommittee's jurisdiction, it is nevertheless a critical element of the overall specialty crop portfolio. This importance makes continuing the program a reasonable goal. Again, it is evident that we have our work cut out for us in the specialty crop arena, and I look forward to our witnesses' testimony.

Additionally, we have a full day. We will have a second panel that will examine Federal feeding programs. Witnesses represent research institutions, nutrition programs, and food banks. Under this Subcommittee's jurisdiction, the major feeding programs that the USDA administers are the Supplemental Nutrition Assistance Program, commonly known as SNAP; the Emergency Food Assistance Program, called TEFAP; and the Commodities Supplemental Food Program, CSFP; and the Fruit and Vegetable Program, FFVP; and the Senior Farmers' Market Nutrition Program, SFMNP.

SNAP is the Federal Government's primary food assistance program. In this program, benefits are fully financed by the Federal Government and a cost-share between states and the Federal Government is in place for administrative costs. There are approximately 44.7 million participants in SNAP who receive an average benefit of $133.85 a month. In this program, there is help for those truly in need and it is unfortunate when abuses occur. It is discouraging to open a newspaper and read stories of fraud, trafficking, and abuse involving the SNAP program. No matter what side of the aisle you are on, we can all agree on the importance of SNAP in helping those in need, and we can all agree that these kind of abuses must be stopped. I plan to look into the program more to see how we can stop abuse and fraud in this program.

I look forward to learning more about how the TEFAP program is operated as well. TEFAP purchases excess foods on the markets and distributes the stock to participants through state agencies and local feeding organizations. I am very interested in hearing Mr. Bivens' testimony about how his food bank, in Oklahoma, spends 96 percent of its funding directly on individuals receiving assistance.

We will also look at the Farmers' Market Nutrition Programs, educating recipients and consumers on the links between healthy eating—especially fruits and vegetables—and healthy lifestyles is imperative.

I think we can all agree that we have a lot of information to review this morning and I am glad that we have the opportunity to do so. Again, as we begin to write the next farm bill, it is imperative that we get input from growers, markets, farmers, ranchers, research institutions, and program directors so we can fully understand from your firsthand experience what is and what is not working.

Some of the decisions on program authorizations and funding levels will be difficult, but with proper evaluation, I am confident that we can put together a farm bill that meets the goals of food safety and security, world prosperity, and nutritional wellbeing.

[The prepared statement of Mrs. Schmidt follows:]

PREPARED STATEMENT OF HON. JEAN SCHMIDT, A REPRESENTATIVE IN CONGRESS FROM OHIO

Thank you all for coming to this hearing to review Title X specialty crop programs and Title IV nutrition programs to help us prepare for the farm bill. I thank all of our witnesses for joining us today. I look forward to hearing your insightful testimony.

I also want to thank my friend, Ranking Member Baca, for joining me in holding this hearing today. It is well known that a certain degree of comity or bipartisanship exists here on the Agriculture Committee, and I look forward to working with my friend as we go through this farm bill process.

Today's hearing will cover two separate components of the farm bill—specialty crop and nutrition programs—but I would like to point out that they are closely intertwined. I believe having a diet that is full of specialty crop products can lead to a more nutritious and healthy lifestyle.

To start the farm bill process, the Agriculture Committee held 11 audit hearings last year with USDA agencies as the main witness. I enjoyed the "homework" that Chairman Lucas gave Agriculture Committee Members so we would have a firm understanding of the programs within the framework of the farm bill.

Last summer, this Subcommittee held farm bill audit hearings and heard from Agriculture Marketing Service and Animal and Plant Health Inspection Service about how they operate Title X specialty crop programs. Similarly, we also heard from Food and Nutrition Service on how it operates the Title IV nutrition and feeding programs.

I believe the review of how the programs are being administered and operated gave Members of this Subcommittee a bedrock understanding. I appreciated the opportunity to learn as much about individual programs before the farm bill hearings began.

As we undertake the important task of crafting our nation's farm policy in writing the farm bill, it is impossible to ignore the tough fiscal situation that we find ourselves in.

With soaring deficits and an unfathomable national debt, we must be mindful of this grave fiscal situation. In order for us to reauthorize and craft *responsible* farm programs, it is our duty and responsibility to ensure that every dollar being spent is a wise dollar spent. Continuing to throw money at programs that are inefficient, duplicative, and wasteful would be a gross abuse of taxpayer dollars and taxpayer trust.

Farm programs and feeding programs have had unusually high profiles in recent months. First, back in the fall, the Agriculture Committee was a target of possible cuts from the Super Committee, and the agriculture community was proactive in offering budget savings. And now we find ourselves again at the center of budget cutting debates. We were instructed to find $33 billion in savings by the House Budget reconciliation instructions, and we are debating these recommendations on the House floor this week.

We on the Agriculture Committee are in a unique position in writing the next farm bill, with 37 programs that have no baseline funding and a public that demands less spending.

I respect Chairman Lucas' belief that there are no sacred cows in the farm bill and that every program is on the table. I believe that during our farm bill audit process, we were able to identify programs and policies that could use further scrutiny.

I welcome all of our witnesses this morning and look forward to their testimony. The first panel will include growers and representatives of the specialty crop community. We have a diverse variety of crops represented from Florida's citrus industry, nursery and landscape plants from the Southeast, California's vegetable growers and packers, a fruit and vegetable grower from my native Ohio, and an organic grower from Maine.

I am interested in hearing the panelists' thoughts on how they use the Specialty Crop Block Grant Program, and the opportunities the funding opens to producers. I am impressed at the range of diverse projects that this program funds—from research to marketing and promotion as well as pest and disease control. I would argue that giving the states the ability to approve grants based on the local needs and circumstances has been a success.

I also look forward to hearing producers' viewpoints on how the Plant Pest and Disease program works for them in early plant pest detection, surveillance, and response. I want to know and learn about the challenges and successes that are in this program and in the well-regarded Clean Plant Network. It is of the utmost importance that American producers are able to meet the threats head-on from disease, pests, and pathogens—and this program is essential to that effort.

We certainly face a challenge in how we continue the Specialty Crop Research Initiative. As we are all aware, this program has no baseline funding going into the next farm bill. Capitalizing on the successful collaboration between universities, growers, agencies, and grower associations from SCRI will be a concern of the Committee's moving forward.

Though SCRI is not technically in this Subcommittee's jurisdiction, it is nevertheless a critical element of the overall specialty crop portfolio. This importance makes continuing the program a reasonable goal.

Again, it is evident that we have our work cut out for us in the specialty crop arena, and I look forward to our witnesses' testimony.

Additionally this morning, we will have a second panel that will examine Federal feeding programs. Witnesses represent research institutions, nutrition programs, and food banks.

Under this Subcommittee's jurisdiction, the major feeding programs that the USDA administers are the Supplemental Nutrition Assistance Program (SNAP), the Emergency Food Assistance Program (TEFAP), the Commodity Supplemental Food Program (CSFP) the Fresh Fruit and Vegetable Program (FFVP), and the Senior Farmers' Market Nutrition Program (SFMNP).

SNAP is the Federal Government's primary food assistance program. In this program, benefits are fully financed by the Federal Government, and a cost-share between states and the Federal Government is in place for administrative costs. There are approximately 44.7 million participants in SNAP, who receive an average benefit of $133.85 per month.

The program is there to help those truly in need, and it's unfortunate when abuses occur. It is discouraging to open a newspaper and read stories of fraud, trafficking, and abuse involving the SNAP program. No matter what side of the aisle you sit on, we can all agree on the importance of SNAP in helping those in need. I plan to look into the program more to see how we can stop abuse and fraud of the program.

I look forward to learning more about how the TEFAP program is operated, as well. TEFAP purchases excess food on the markets and distributes the stock to participants through state agencies and local feeding organizations. I am very interested in hearing Mr. Bivens' testimony about how his Food Bank in Oklahoma spends 96% of its funding directly on individuals receiving assistance.

We will also look at the Farmers' Market Nutrition Programs. Educating recipients and consumers of the links between healthy eating—especially fruits and vegetables and healthy lifestyles—is imperative.

I think we can all agree that we have a lot of information to review this morning, and I am glad that we have the opportunity to do so.

As we begin to write the next farm bill, it is imperative that we get input from growers, marketers, farmers, ranchers, research institutions, and program directors so we can fully understand from your first-hand experience what is working and what is not working. Some of the decisions on program authorizations and funding levels will be difficult. But with proper evaluation, I am confident that we can put together a farm bill that meets the goals of food safety and security, rural prosperity, and nutritional well-being.

I would like to recognize my friend from California, Ranking Member Baca, for any opening remarks he may have.

The CHAIRWOMAN. I would like to now recognize my good friend from Maine, Ms. Pingree.

OPENING STATEMENT OF HON. CHELLIE PINGREE, A REPRESENTATIVE IN CONGRESS FROM MAINE

Ms. PINGREE. Thank you very much, Chairwoman Schmidt. I thought you did a really impressive job with all of those initials. It is like my other committee, the Armed Services Committee, sometimes I am always trying to figure out what is that program anyway with all those little letters.

I am thrilled we are here today having this hearing and very glad that the Committee has begun its work of writing a farm bill this year.

While I was actually born in Minnesota in a farming family, I moved to Maine about 40 years ago and started an organic farm growing and selling healthy local food, and in those days, it was a little bit out of the mainstream. But today, local food is a growing $5 billion industry in which direct consumer outlets from farmers markets to CSAs operate in all 50 states. But there is still a lot of work to be done to make sure we fully realize that potential.

Nutrition programs and specialty crop programs are both an important link in ensuring that all families have the option of putting fresh and good food on their tables. Specialty crops—or actually in Maine we call them fruits and vegetables—make up a large and diverse cross-section of agricultural interests across the country. By investing in programs like the Specialty Crop Block Grants, the National Organic Certification Cost-Share Program, and the Farmers Market and Local Food Promotion Program—to speak of a few initials—we will grow this sector of the economy, increase the number of farmers, and meet our food security needs I believe.

Nutrition programs are equally important in meeting those goals. Beyond protecting SNAP benefits for the most vulnerable, we need to think creatively about how to link nutritional programs to farmers. If we make commonsense reforms like providing EBT readers at farmers markets, make it easier for schools to purchase local fresh food, we are increasing healthy food options for low income families and expanding markets for farmers. When farmers sell to local markets, they get to keep a bigger share of the dollar. It is a win for the farmers and it is a win for our families.

SNAP, as we all know, is the largest program in the farm bill. It seems to me great when we encourage families to use their benefits to buy fresh food teaching them how to cook healthy meals and support local farmers at the same time. I agree with my colleague budgets are tight and we need to do everything in our power to reduce the deficit, but those cuts and those savings cannot be put on the backs of the nation's most vulnerable. SNAP is one of the most effective programs we have to help struggling households to meet one of their most basic needs and we must continue to support this vital program.

Last year, I introduced the Local Foods, Farm, and Jobs Act, a package of reforms to the farm bill that will help move our nation's food policy in the right direction. That bill would make it easier for farmers to sell their food locally, to make it easier for schools to buy local food, make it easier for us to rebuild the local and regional food systems. In writing the bill, our goals were simple: expand opportunities for farmers and make it easier for consumers to have access to healthy food.

It is my sincere hope that we use these same basic principles in crafting a farm bill. The farm bill is about the economy and jobs as much as it is about food and farms. If we spend more on food grown locally and not spend it in other regions of the country or in another country, we will grow our local economies even more and expand our markets for eating fresh fruits and vegetables for everyone around the country.

Thank you for being here today. To everyone on the panel, I am very much looking forward to your testimony and the testimony of our next panel.

Thank you very much, Madam Chair.

[The prepared statement of Ms. Pingree follows:]

PREPARED STATEMENT OF HON. CHELLIE PINGREE, A REPRESENTATIVE IN CONGRESS FROM MAINE

Thank you Chairwoman Schmidt. I'm very happy we are having this hearing today, and I am glad the Committee has begun its work of writing a farm bill this year.

When I moved to Maine forty years ago and started an organic farm, growing and selling healthy food locally was a little out of the mainstream. Today "local food" is a growing $5 billion industry with direct-to-consumer outlets from farmers markets to CSAs in all 50 states, but there is work still to be done to ensure we fully realize its potential.

Nutrition programs and specialty crop programs are both an important link in ensuring that all families have the option of putting fresh and good food on their tables.

"Specialty crops"—or as we call them in Maine "fruits and vegetables"—make up a large and diverse cross section of agriculture across the country. By investing in programs like Specialty Crop Block Grants, the National Organic Certification Cost-Share Program, and the Farmers Market and Local Food Promotion Program, we will grow this sector of the economy, increase the number of farmers and meet our food security needs.

Nutrition programs are equally important in meeting these goals. Beyond protecting SNAP benefits for the most vulnerable, we need to think creatively about how to link nutrition programs to farmers.

If we make common-sense reforms like providing EBT readers at farmers markets, and make it easier for schools to purchase local fresh food, we are increasing healthy food options for low-income families and expanding markets for farmers. When farmers sell to local markets, they get to keep a bigger share of the dollar. It's a win for farmers and it's a win for our families.

SNAP is the largest program in the farm bill—shouldn't we be encouraging families to use their benefits to buy fresh food, teaching them how to cook healthy meals, and support local farmers at the same time?

Yes, budgets are tight, and we need to do everything in our power to reduce the deficit, but these cuts, and these savings cannot be put on the backs of the nation's most vulnerable. SNAP is one of the most effective programs we have to help struggling households to meet one of their most basic needs. We must continue to support this vital program.

Last year, I introduced the Local Farms, Food and Jobs Act—a package of reforms to the farm bill that will help move our nation's food policy in the right direction.

This bill would make it easier for farmers to sell food locally, make it easier for schools to buy local food, and make it easier for us to rebuild the local and regional food systems.

In writing this bill, our goals were simple: expand opportunities for farmers and make it easier for consumers to have access to healthy local food.

It is my sincere hope that we use these same basic principles in crafting a farm bill.

The farm bill is about the economy and jobs as much as it is about food and farms. If we spend more on food grown locally and not at a big factory farm or in another country, we will grow local economies.

Thank you for being here today, I am looking forward to hearing from both of our panels.

The CHAIRWOMAN. Thank you.

And the chair would request that other Members submit their opening statements for the record because we are on a tight schedule today and that way we will have enough time for the panelists and for questions.

[The prepared statements of Messrs. Lucas, Southerland, Baca, and Sablan follow:]

PREPARED STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Good morning.

I want to thank Chairwoman Schmidt and Ranking Member Baca for holding today's hearing to review specialty crop and nutrition programs as we prepare for the next farm bill.

Last June, the Committee started the farm bill process by holding 11 audit hearings—focusing our attention on the U.S. Department of Agriculture—to look for ways to improve programs for farmers, increase efficiency and reduce spending.

We then went out to the countryside this spring to hear directly from producers in the field, and now the hearings taking place in Washington will round out the information gathering that is necessary in writing sound and effective farm policy.

It's important to consider a variety of perspectives when writing comprehensive bipartisan legislation. I am pleased that this Subcommittee is hearing from witnesses from across the country representing our nation's specialty crop industry.

The 2008 Farm Bill expanded upon existing programs and established some new ones that have proven beneficial in assisting specialty crop growers with research, pest and disease pressures, maintaining and opening international markets, and increasing consumption of the best fruits and vegetables in the world. Given the wide variety of specialty crops grown in different climates throughout the U.S., it is impressive that this sector of agriculture is largely united as the Specialty Crop Farm Bill Alliance. Having your input on how these programs have been implemented and what changes need to be considered will only strengthen these programs for the future.

I also appreciate the perspective from each of the witnesses representing the nutrition community. Nutrition accounts for almost 80 percent of our Committee's entire mandatory spending for the farm bill, and I know every Member of this Committee wants to ensure that every dollar is spent as wisely and effectively as possible.

I am pleased Rodney Bivens with the Regional Food Bank of Oklahoma could be here today. The work at food banks across the country is a tremendous example of how the public-private partnership can benefit those in need. The Regional Food Bank, together with the Community Food Bank of Eastern Oklahoma, provides food to more than 1,250 programs and schools. Oklahoma's food banks distributed 63.1 million pounds of food in Fiscal Year 2011, nearly double the amount of distribution since 2007. We all know the extreme demand placed on food banks in recent years, and we applaud the work of all food banks as they strive to meet the increasing demands for emergency food assistance.

Again, I want to thank all of the witnesses for sharing your valuable insight with us today. The road ahead of us won't be easy. But I'm confident that by working together, we can craft a farm bill that continues to support the success story that is American agriculture.

PREPARED STATEMENT OF HON. STEVE SOUTHERLAND II, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

Thank you for holding this hearing to review specialty crop and nutrition programs within reauthorization of the farm bill. I welcome the opportunity to reauthorize Federal agricultural policies affecting American agricultural production in the development of the 2012 Farm Bill.

As a significant contributor to U.S. farm receipts and balance of trade, it is extremely important that the issues affecting specialty crops play a meaningful role in the farm bill. Specialty crops, including fruits, vegetables, nuts, horticultural crops and others, represent nearly 44% of gross agricultural cash receipts in the U.S., and hence have a significant stake in our nation's agricultural policy.

Florida ranks among the top ten states in the nation in agricultural crop value and second in the specialty crop production with a wide variety of fruit, vegetable and nursery crops grown through the state. The farm bill 5 year farm policy measure should continue and strengthen its emphasis on key areas such as pest and disease, research, giving states the flexibility needed to better address agricultural challenges and other key areas, to ensure critical resources are available to respond to the unique needs of specialty crops.

Historically, many Florida agricultural producers—and specialty crop growers throughout the country—have chosen to base their economic decisions on the marketplace and have not relied on Federal farm price support programs. However, these markets can be very volatile and the industry faces extreme and somewhat unique pressures including ever increasing environmental challenges, labor and production costs beyond that of our competitors, subsidized foreign market competition. In addition, unprecedented exposure to pests and disease and state-of-the-art agricultural research needs tailored to the needs of fruit and vegetable production is also vital.

Florida is listed by the U.S. Department of Agriculture as the number two high-risk state, second only to California regarding exotic pest and disease introductions pressure. According to the Florida Department of Agriculture, costs to combat pests and diseases affecting Florida farmers, have easily exceeded $1 billion over the last decade.

Specialty crop farm bill measures such as the such Pest and Disease Management Program "Section 10201", Section "10202", Specialty Crop Block Grants, the Specialty Crop Research Initiative, and well as marketing, nutrition, and other programs provide valuable opportunities for Florida and U.S. specialty crop industry in American farm policy.

In addition, as a Member of the Subcommittee on Nutrition and Horticulture of the House Agriculture Committee, with jurisdiction over our nations' nutrition and food stamps, I recognize the importance of balanced nutrition for health and welfare, particularly for those less fortunate in our society. As such, it is critical that we ensure that valuable nutrition and food stamp funds go to those most needy in the most efficient and cost effective manner possible to meet the nutrition needs of our nation, promote American agriculture—all while ensuring the best possible use of taxpayer dollars.

I would also like to commend the adoption through State of Florida of the *Healthy Schools for Healthy Lives Act,* under the leadership of former Member of Congress, Agriculture Commissioner Adam Putnam. The Healthy Schools for Healthy Lives Act would help to improve nutrition in school cafeterias across the state, directing more of Florida's fresh fruits and vegetables to student's and help children build healthier eating habits. Also vital to meeting hunger needs are our local food banks, community and charitable organizations, who through vital private public partnerships are working steadfastly to reach those most in need.

Mindful of the fiscal constraints facing our Federal budget and increasing national debt, we must be vigilant within this Committee and working with the U.S. Department of Agriculture to focus valuable Federal resources in those areas with the most effective impact to sustain and strengthen specialty crops, nutrition and agricultural production in our nation. Thank you again for the opportunity to hold this hearing I look forward to working with my colleagues as we consider reauthorization of the 2012 Farm Bill.

Prepared Statement of Hon. Joe Baca, a Representative in Congress from California

Thank you Chairwoman Schmidt, and thank you to our witnesses for their time and expertise today. As we prepare to write a farm bill, your views are of great importance.

In 2008, I was proud to be part of a historic farm bill that added record funding to vital nutrition programs. I believe those changes made the difference between health and hunger for many families during this recession.

In 5 short years, so much has changed. We have endured a recession that has been devastating to my district where unemployment is still near 13%. Instead of 28 million people on SNAP, there are over 46 million Americans who rely on this supplemental program to get by.

Over the course of those 5 years, our House leadership has changed. I am pleased to serve with you, Chairwoman Schmidt, and truly appreciate the level of cooperation and shared responsibility that we have. But I am troubled by the tone of this Congress. I am troubled that we are considering a reconciliation bill that shows such an obvious detachment between Members of Congress and our constituents.

The reconciliation package approved by the full Agriculture Committee last month proposes $33 Billion in cuts to the SNAP program. This package would turn back the clock on the nutrition safety net for a record number of Americans. It also highlights what I believe are the misplaced priorities of some of my colleagues. At a time when America spends billions of dollars in assistance to foreign countries, it is wrong to cut vital assistance for the poor and disadvantaged at home.

We all must remember—the struggling families who rely on SNAP to put food on the table are in our hands. The decisions we make drastically impact their lives, so I caution my colleagues to be mindful of our responsibility.

Like everyone, I recognize that we must ensure SNAP is operating efficiently, and cost-effectively. The unprecedented number of SNAP enrollees has placed tremendous stress on the USDA and the states. We must take the time to carefully examine how this program functions under duress. But as a father, a grandfather, and a Christian, I also know it is wrong to balance our budget on the backs of our most vulnerable Americans.

As we begin to work on the farm bill—it is important we craft a nutrition title and a specialty crops title that: protects our nutrition safety net; promotes production and consumption of healthy fruits and vegetables; and ensures that no one in America goes hungry.

Moving forward, I hope Congress will work on a bipartisan basis to craft a responsible farm bill. Yes, we must reduce our deficit, but we also must protect the health and well-being of the American people.

Again, I thank all of our witnesses for their willingness to participate in today's hearing. We are here to listen and to learn so we can make the best policy choices possible.

Prepared Statement of Hon. Gregorio Kilili Camacho Sablan, a Delegate in Congress from Northern Mariana Islands

Good morning and thank you, Chairwoman Schmidt and Ranking Member Baca. Any Federal program of the size and scope of the Supplemental Nutrition Assistance Program must constantly be monitored to make sure it is efficient, free of abuse, and reaching the people it is intended to help.

I have to say, however, that the discussion seems academic to me, when the people I represent do not have access to SNAP.

The Northern Marianas receives a block grant each year that is supposed to be the equivalent of SNAP, but in fact only provides half the assistance that SNAP would. In fact, the local government and the Department of Agriculture do such a poor job of negotiating that grant that last week—for the second year in a row—benefits had to be cut.

Food, much of it imported and shipped over long distances, is expensive in our islands. Yet, some 10,000 people—20 percent of our entire population—are now forced to get by on $3.64 per day for food. I have tried doing this; and I plan to do it again. I can tell you that having this little money to feed oneself is not healthy.

I have been working to get more food aid to my people since the day I arrived here in 2009. Secretary Vilsack provided a 13.6 percent increase that year to match the increase in the Recovery Act that other Americans received. Last year, Agriculture found another $1 million to add to the FY12 block grant.

But the fact is this piecemeal approach—trying to fix a block grant system that simply cannot adjust to changing need—is not working. If it were working benefits would not have been cut last week.

So, I have also introduced legislation, H.R. 1465, the AYUDA Act, which includes the Northern Marianas in SNAP. Being included in SNAP, will give the Americans I represent the same access to food assistance as other American receive. Being included in SNAP will make the system more efficient and will reduce fraud. Being included in SNAP will mean that as economic circumstances change in the Marianas Federal expenditures will go up or go down in response, replacing this zombie block grant program that operates oblivious to economic realities.

Regarding the need to reduce fraud—an issue we are all most concerned with—I would remind the Subcommittee that when the Northern Marianas Governor met Department of Agriculture officials here in Washington in February, he told them that fraud is occurring in the system he administers. Chairwoman Schmidt, Ranking Member Baca, Rep. Pingree, and myself, sent a formal request asking the Department to investigate, but we have received no response. We have also received reports that the block grant program has been administered in the Northern Marianas in a manner that is in violation of the Department's own civil rights policies. The only response I have received from the Department on this is that the local operations manual will be rewritten to say that such violations are prohibited, which checks the bureaucratic box, but does nothing to make whole those who did not receive the food assistance they were entitled to.

What is even more frustrating to me about this situation is that Secretary of Agriculture already has the statutory authority to extend SNAP to the Northern Mariana Islands. He could give my constituents the same assistance other Americans receive, if he chose to do so. He could exercise greater management control to ensure that the reports of fraud and civil rights violations are addressed effectively. He has not. Last summer in an open hearing of the Nutrition Subcommittee, Department officials promised "we will work with you" on my goal to bring the Northern Marianas into SNAP. As I mentioned, the Department did provide an additional $1 million for the block grant for this fiscal year. But that was insufficient to keep benefits from being cut.

What weighs on me each and every day is that hundreds of families I represent have to choose whether to pay their utility bills so their kids have light to do their homework, or fill their cars with expensive gasoline to get to work, or put sufficient and nutritionally adequate food on their tables. This should not be. SNAP has proven its value. It has long-standing bipartisan support because it is a program that works: responsive in times of need, helping the most vulnerable, and lifting people out of poverty. Yes, we need to find ways to reduce our government deficit, but SNAP expenditures will decline in the years ahead as the economy continues its recovery. In the meantime, we need to continue helping those Americans who need our help, including those who live in the islands.

Thank you for this opportunity.

The CHAIRWOMAN. So right now, we are going to go with our first panel, which is already in front of us. We have Mr. Jerry Lee, the Environmental Service Manager of Monrovia Growers in Cairo, Georgia. Thank you for being with us. We have Mr. Michael Jarrard, President and COO of Mann Packing Company in Salinas, California. We have Ms. Lisa Schacht, Owner/Operator of Schacht Family Farm and Market in Canal Winchester, Ohio, on behalf of the Ohio Produce Growers and Marketers Association. We have Mr. Russell Libby, Executive Director of Maine Organic Farmers and Gardeners Association in Unity, Maine; and Mr. Dan Richey, President and CEO of Riverfront Packing Company in Vero Beach, Florida, on behalf of the Florida Fruit & Vegetable Association.

So as you can see, we have both coasts, we have the Northwest, we have the South, and we have the Midwest in front of us. And I am looking forward to each and every individual's testimony. So Mr. Lee, we will begin when you are ready.

STATEMENT OF JERRY LEE, ENVIRONMENTAL SERVICES MANAGER, MONROVIA GROWERS, CAIRO, GA

Mr. LEE. Chairwoman Schmidt, Ranking Member Baca, Members and guests, thank you for the chance to speak today on specialty crops in the farm bill. I am Jerry Lee of Monrovia in Cairo, Georgia. We are a national grower of nursery and greenhouse plants supplying 48 states and Canada from facilities in Georgia, North Carolina, Oregon, and California. Our industry represents ⅓ of the value of specialty crops worth almost $17 billion at farm gate. It contributes to over $175 billion in economic output and sustains almost two million full- and part-time jobs.

Our national organization, the American Nursery and Landscape Association, is an active leader in the Specialty Crop Farm Bill Alliance. The 2008 Farm Bill funded important infrastructure building programs to help ensure future success of specialty crop growers. For our industry, the Plant, Pest, and Disease Program and the National Clean Plant Network, Sections 10201 and 10202, have been the most essential. Globalization has meant more travel, more trade, and more introduced plant pests. Whenever a new pest comes to our shores, it usually causes havoc somewhere in our industry.

We lived through such a nightmare, our operation. In March 2004 a previously unknown disease known as *Phytophthora ramorum,* the cause of so-called Sudden Oak Death was detected for the first time in plants originating in Monrovia and two other nurseries. In that year, the disease was found in retail operations in 22 states. The pandemonium that followed had states enacting protectionist regulations that devastated interstate commerce. Losses to our company were estimated at $6.9 million, something few nurseries could survive.

Pest and disease funds support threat identification, prevention, mitigation, technology development, and other projects resorting from a collaborative process among Federal, state, and industry stakeholders. For nurseries, funds are helping to develop innovative systems approaches much like the food safety programs now common in food processing. We would hope to move cleaner plants with less government involvement.

The National Clean Plant Network has expanded and strengthened the infrastructure to import and distribute clean stock of high-value, high-risk crops such as apples, peaches, grapes, citrus, and berries. Clean stock of the newest varieties enhances grower profitability. My written statement includes prior Congressional testimony with more detail.

The farm bill marked up by your Senate counterparts consolidates the Pest and Clean Plant Programs. We can support consolidation if NCPN receives the priority it deserves. The Specialty Crop Block Grant Program provides state ag departments with funds to support programs that enhance production and marketing in specialty crops. In Georgia, block grants have funded vital landscape water conservation training and outreach during the drought. A new marketing program known as Plant Something started with a block grant in Arizona. It has been adopted in six states and is expanding. It educates consumers on why to plant, what to plant, and where to go. Our industry's products are a discretionary purchase and we must convince consumers that investments in plants and landscapes are financially wise, improve quality of life and the environment.

A few lessons learned and suggestions for the future: specialty crops have been under-served in terms of research. The Specialty Crop Research Initiative has helped but your insistence on more industry involvement early in the peer review and merit process would ensure that industry relevance is fully considered. The matching fund requirement that has been an impediment for Federal researchers, like those at the ARS, allowing Federal resources to contribute to the match will help ensure that the best scientists can fully collaborate.

Energy programs like the Biomass Crop Assistance Program, or BCAP, had noble intentions but unintended consequences. Tree bark and wood processing byproducts had established markets like nursery growing media, mulch, composite panels, and furniture. For many such uses there are no substitutes. BCAP almost paid Federal subsidies to divert these materials to energy production and would have devastated energies like ours in the process. After thousands of public comments, USDA established mostly helpful rules. Still, we see we think clear farm bill definitions would help.

In 2008, the farm bill became very relevant to the high-value specialty crop industries, which generate jobs and economic activity well beyond traditional row crops. For our industry, the Plant, Pest, and Disease Clean Plant Research and Block Grant provisions have been among the most beneficial. We hope that they will be continued and improved upon in the next farm bill.

Thank you.

[The prepared statement of Mr. Lee follows:]

PREPARED STATEMENT OF JERRY LEE, ENVIRONMENTAL SERVICES MANAGER, MONROVIA GROWERS, CAIRO, GA

Chairwoman Schmidt, Ranking Member Baca, distinguished Members of the Subcommittee, and guests, thank you for the opportunity to testify today on how the specialty crop provisions of the 2008 Farm Bill have worked, and thoughts about the next farm bill. I am Jerry Lee, of Monrovia in Cairo, GA. This division of Monrovia began as Wight Nurseries in 1887 and in 2001 merged with Monrovia, which started operation in 1926. Monrovia is a national grower of nursery and greenhouse plant material, supplying 48 states and Canada from our four production facilities located in Georgia, North Carolina, Oregon and California.

The priorities outlined in my testimony reflect those of the American Nursery & Landscape Association (ANLA) and the Georgia Green Industry Association (GGIA). ANLA, our national organization, represents all facets of the nursery and landscape industry, including growers, garden retailers, landscape design and installation professionals, and industry suppliers. ANLA is an active participant in the Specialty Crop Farm Bill Alliance. Our industry is the third largest plant crop in production value, behind corn and soybeans but ahead of wheat, cotton, and tobacco. It produces crops valued at $16.7 billion at farmgate, contributes to over $175 billion in economic output, and sustains 1.95 million full- and part-time jobs. GGIA represents the "green industry" within our state, which accounts for a $7 billion annual economic impact and employs 70,000 Georgians. GGIA is our state trade association and our membership includes wholesale nurseries, retail garden centers, greenhouse growers, landscape contractors, irrigation contractors and allied organizations.

Today I will speak to several sections of the 2008 Farm Bill that have proven to be of particular importance to our industry. Title X, Sec. 10201 provided funding for critical plant pest and disease initiatives. Sec. 10202 funded the National Clean Plant Network, or NCPN. These sections of the farm bill acknowledge that devastating foreign plant pests and pathogens present enormous threats to U.S. specialty crop producers, and they are funding vital programs to address the threats. I will also touch on the specialty crop block grant program. Finally, I will offer a few thoughts about relevant programs included in other titles of the farm bill—the Specialty Crop Research Initiative, and the Biomass Crop Assistance Program—and discuss a few implementation challenges and lessons learned.

Section 10201—Plant Pest and Disease Program

Sec. 10201 has funded an array of programs and initiatives in partnership with collaborators including industry and the states. Funded programs have been suggested, organized, prioritized, and implemented under six broad goal areas:

- Enhance Analysis and Survey
- Domestic Inspection
- Enhance Pest Identification and Technology
- Safeguard Nursery Production
- Outreach and Education
- Enhance Mitigation

Important work has been accomplished under each of these goal areas, and is summarized in USDA–APHIS' periodic reports to Congress. Goal 4, Safeguard Nursery Production, recognizes that nursery stock can be a vector for moving serious pest threats around the country and globally. Several projects funded under this goal are contributing to the development of innovative systems for managing pest threats, modernizing the nursery certification system, and avoiding the spread of disease threats like *Phytophthora ramorum* (the cause of so-called Sudden Oak Death) on nursery stock. Another initiative established the National Ornamentals Research Site at Dominican University of California, where work on disease prevention, detection and mitigation strategies for quarantine pest threats is now underway in a "real-world" nursery setting.

In March, 2004, *P. ramorum* was detected for the first time in nursery stock originating at Monrovia and two other nurseries. That year the pathogen was found in retail operations in 22 states and 177 individual sites. The pandemonium that followed had individual states enacting various protectionist regulations that devastated interstate commerce. The fact is, the typical U.S. nursery derives 70% of its income during a thirteen week period in the spring and any disruption during that window has severe repercussions to our industry. Losses to our company from *P. ramorum* positives were estimated at $6.9 million, something few businesses in our industry could survive. In addition, disease scouting and testing probably costs us $30,000 a year or more. Beyond the direct impact to our industry and the consumer, enormous public and private sector resources were consumed to contain the pest and prevent the spread of this previously unknown threat.

Work now underway, thanks to the 2008 Farm Bill, is contributing to the development of integrated measures, or systems approaches, for safer certification and movement of nursery crops interstate and internationally. We participate in one such program, the U.S. Nursery Certification Program (USNCP), which has existed for several years as a pilot. In its current form, the USNCP facilitates trade with Canada, our largest trading partner for nursery and greenhouse plants. Participants develop detailed pest prevention and management policies and procedures, documented in a manual and reinforced through ongoing training and record-keeping on pest control and best practices. Participation allows us to self-issue the documentation needed to ship our product, avoiding the costs and delays of waiting for a government inspector to certify each load. Work to streamline and expand this program is now underway thanks to the farm bill.

With respect to the Pest and Disease Program, USDA–APHIS has done a generally good job of managing a broad-based and inclusive process for soliciting and receiving funding suggestions from cooperators including the states, industry, and other Federal agencies.

Section 10202—National Clean Plant Network

The National Clean Plant Network stands out as a shining success of the specialty crop title of the 2008 Farm Bill. Farm bill funding has enabled expansion and strengthening of mostly established infrastructure and expertise to safely import and distribute clean material to producers of nursery stock for high-value and "high-risk" crops such as apples, peaches, cherries, grapes, citrus, and berries. Commercial growers of these crops benefit from access to healthy stock of the newest varieties that enhance U.S. competitiveness and grower profitability. Robert Woolley, of Dave Wilson Nursery, Hickman, CA, testified last year before the Senate Agriculture Committee, and covered the program and its accomplishments. I have attached an excerpt of Mr. Woolley's testimony to my statement.

It is worth noting that the farm bill recently marked up in the Senate would consolidate the Pest and Disease Program and the National Clean Plant Network. We are supportive of consolidation if the work of the NCPN receives the priority it deserves. NCPN has accomplished a lot with limited funds. Expansion of the program to additional crops may require additional funds.

Specialty Crop Block Grant Program (Farm Bill 2008—Section 10109)

The Specialty Crop Block Grant program provides state departments of agriculture and U.S. territories with funds to support local, regional and statewide programs that enhance producers' ability to compete in the marketplace and provide consumers with safe, abundant plants and food. This recognition of states' individuality and niche markets is important in facilitating advancements in marketing, pest control, food safety, and production efficiencies of specialty crops. My industry would encourage this Committee to support your Senate counterparts' efforts to expand funding for this program and allow the opportunity for multi-state proposals, so that relevant specialty crop priorities can be approached on a regional basis where that makes the most sense.

A few success stories may be useful. Close to home, Georgia has faced serious long-term drought conditions in recent years. Specialty Crop Block Grants afforded the Georgia Green Industry Association the outreach funds for 4 consecutive years to bring desperately needed water conservation and irrigation training to many locales in Georgia. Through this outreach, GGIA has developed local chapters to help disseminate information and provide training to nursery and landscape professionals throughout the state. This vital outreach and its positive impact on the horticulture industry in Georgia would not have been accomplished without the assistance of specialty crop block grants.

Another success story began in Arizona 2 years ago, and has grown into a six state unified promotional campaign for the nursery industry entitled "Plant Something". Through the website *www.plant-something.org*, consumers are introduced to the monetary, environmental and health benefits of planting and installing a landscape for their home and community. After identifying the state in which they live, they are linked to specific state information about appropriate trees and plants and shown the garden centers nearest them. Participating states to date include Arizona, Colorado, Idaho, Minnesota, Massachusetts and Washington. This project is a stellar example of the purpose of these block grants which is to increase the consumption of specialty crops, and the competitiveness of the specialty crop industry. After all, my industry's products are a discretionary purchase, and we need to convince consumers to choose plants and landscape enhancements over other home improvements or leisure activities.

One potential concern regarding the 2012 Farm Bill mark reported out of the Senate Committee on Agriculture, Nutrition and Forestry has to do with the new formula for state allocations of Block Grants, which includes acreage in the calculation. This change in approach under-appreciates high value specialty crops that require less acreage. In addition, it may undervalue intensive farming represented by crops that have multiple "turns" in a calendar year. Removing the acreage component or deemphasizing it somewhat in the funding formula may allow for funding to be allocated in a more equitable manner.

Specialty Crop Research Initiative (Farm Bill 2008—7311)

Since its inception in the 2008 Farm Bill, The Specialty Crop Research Initiative has played a vital role in foundational research on production efficiencies, food safety, pest management, and crop characteristic improvements through breeding. While specialty crops make up approximately 50% of U.S. farm gate receipts, programs to support and sustain the sector receive less than 5% of the crop related dollars in the farm bill. However, even this modest investment shows the capacity to has had significant impact on the specialty crop industry. Projects that develop food safety metrics for leafy greens and tomatoes to protect consumers, precision irrigation and nutrient management strategies to protect waterways and prevent disease outbreaks, and management strategies for pollinators like bees that are threatened by an unexplained decline, benefit both growers and consumers.

SCRI has been a successful program due largely to the spirit of collaboration between industry, universities and government agencies that the program helps to foster. However, like all programs, some modifications should be made to encourage further collaboration, increase efficiencies, and further grow the return on investment. Greater industry involvement in the peer review and merit process would help science reviewers identify projects with greatest relevance to growers. While scientists often recognize new or innovative techniques and tools, they might not always know market needs and industry concerns. Expanding the dialogue between industry and science reviewers would surely improve the quality and relevance of funded projects.

An additional impediment to collaboration and improvements in efficiency has been the non-Federal dollar match requirement in the 2008 Farm Bill. This requirement prevented Federal agency dollars from being included in fund matching. For example, state and private university faculty can use salaries and fringe to meet their matching requirements but Federal researchers, like those in the Agricultural Research Service (ARS) of the USDA, cannot. Removing the non-Federal match requirement, as the Senate Committee mark recommends, would create a more even playing field and go a long way to assuring that the scientists best suited, be they in universities, state departments of agriculture, or Federal agencies, are able to pursue the needed research.

Implementation Challenges and Lessons Learned

Pest and Disease Program—Congress in the 2008 Farm Bill recognized the need to improve the pest safety net, but the improvements in that important legislation have been threatened because USDA, after the farm bill became law, determined that an earlier limit on using funds from the Commodity Credit Corporation for administrative costs applied to many farm bill programs. This USDA legal opinion held up money for Section 10201, the Clean Plant Network, the Specialty Crop Block Grants, and other programs. The legal opinion would of course appear to contradict Congressional intent. But it has forced Congress to enact a series of temporary fixes. The programs have suffered from stopping and starting. Many specific projects require advance planning for staffing, purchase of supplies like traps and lures, or very specific timing to target a pest when it can be detected or controlled. A permanent correction needs to be achieved in the farm bill.

Biomass Crop Assistance Program—The Biomass Crop Assistance Program had noble intentions of reducing our nation's reliance on foreign and non-renewable energy sources while tapping our agricultural and engineering infrastructure to develop reliable and renewable domestic energy supply. The program was intended to help incentivize farmers, ranchers, and forest landowners to participate in this new marketplace and by growing new "energy crops" or sending waste products to biomass conversion facilities where they would then be used for bioenergy. However, there were unintended consequences.

One problematic issue identified shortly after the bill's passage was the potential of diverting softwood and hardwood bark from established markets and uses to bioenergy facilities. Conifer bark is the primary component of growing media used in container nursery operations, and in many greenhouse operations. For context, 70% of nurseries in the U.S. are container operations and 100% of greenhouse businesses are container operations and there really are no viable replacements for bark substrates at this time.

After considerable consultation and thousands of written comments from the public, the USDA established a rule to prevent this specific market distortion by emphasizing that the purpose of the program was to incentivize ". . . cultivation of new biomass for new markets rather than divert biomass from existing markets." The rule goes on to define softwood and hardwood bark that has existing markets as a high-value material that is not eligible for BCAP funding.

The current statute defines "renewable biomass" in relevant part as ". . . any organic matter that is available on a renewable and recurring basis . . .". Although there is an exclusion in the statute for materials from public lands that are used in higher valued products, the exclusion is not explicit regarding such materials from private lands. Byproducts such as bark, sawdust, shavings and woodchips could be considered to be eligible for subsidies in programs promoting bioenergy. Manufactured products such as composite wood used in wood-based furniture, cabinets doors, flooring, architectural moulding and millwork and other commercial products such as landscaping mulch and commercial growing media rely exclusively on these wood by-products as their only available raw material. A definitional exclusion of biomass from private lands for use in higher valued products is needed in order to eliminate the incentive to divert basic raw materials away from existing industries that could be put at risk. At the same time, it would encourage the expansion of America's fuel supply and the development of new sources of renewable energy. **We ask you to support an amendment to the definition of "Renewable Biomass" that excludes bio-based materials from public and private land that are used for higher value products.**

Conclusion

In 2008, the farm bill became extremely relevant to the specialty crop industries which, as you know, represent roughly half the value of all U.S. crop production. Moreover, they generate jobs and economic activity in rural communities well beyond that generated by traditional mechanized row crops. To illustrate, a farming colleague in New York recently shifted 1,000 acres out of high-value vegetables, and into field corn, over concerns about labor availability. Her payroll for farming that 1,000 acres went from $2.5 million for vegetables, to about $70,000 for field corn. This represents a huge decrease in money being generated and spent in a rural area that lacks much economic opportunity.

For the nursery and greenhouse industry, the plant pest and disease, clean plant network, and block grant provisions have been among the most beneficial. We hope that they will be continued—and improved upon—in the next farm bill. Thank you again for this opportunity to testify at this important hearing, and we wish you the best in your deliberations.

ATTACHMENT

Excerpt from Testimony of Robert Woolley, Specialty Crop Farm Bill Hearing, Senate Agriculture Committee

July 28, 2011

What is a "clean plant?" A "clean plant" is free of systemic infection by especially injurious or quarantine graft-transmissible disease-causing pathogens. (Graft-transmissible means spread through the most common methods for producing new plants that are essentially copies of the desired variety.) Enabling our nursery industry to produce clean plants is of critical importance because a number of serious diseases—virus and other graft-transmissible agents—can be moved into the United States or to new locations by nursery stock. Once a disease that systemically infects perennial plants has become established in a region, it is usually impossible to eradicate. Infected plants have deleterious impacts on the fruit and nut tree and other specialty crop industries, including:

- Low yields and unpredictable cropping times;
- Poor fruit quality affecting flavor and marketability;

- Premature plant decline and death requiring frequent and expensive replacement and affecting both home owner and grower confidence in our industry and its products;
- Frequent and expensive treatments in the nursery and in fruit and berry farms and orchards to mitigate plant problems;
- Decreased ability to move both plants and resulting crops in domestic and international trade.

Virtually all fruit and nut trees are propagated asexually, via budding or grafting. This allows graft-transmissible disease to spread in nursery stock if plants are grown from infected mother trees. Diseased mother trees often show no signs of infection, even when infected with serious quarantine disease, and once infected with a virus or virus-like agent, the disease can't be removed from an orchard tree. So, to prevent the spread of disease, nurseries rely on various testing protocols to determine if mother plants are clean.

The National Clean Plant Network diagnoses and treats plants against the pathogens that cause serious disease. This prevents the spread of plant disease by enabling nurseries to produce clean plants as well as providing a safe method for the introduction of new varieties from abroad.

The fruit and nut tree component of the National Clean Plant Network is comprised of three regional centers: the Clean Plant Center of the Northwest located at Washington State University, Prosser; Foundation Plant Services at the University of California, Davis; and the Southeastern Budwood program at Clemson University in South Carolina. The National Clean Plant Network provides technical expertise and equipment not available in the private sector to test 'mother' trees to see if they are clean. If no clean trees are available, the NCPN has the capability to eliminate virus and other disease causing pathogens via heat treatment, chemotherapy, and other effective methods that cannot be implemented at the farm level.

In addition to supporting the needs of the fruit and nut tree industry both nationally and regionally, the NCPN also works with other specialty crops such as grapes, berries, citrus, and hops; building broad cooperation among interests that help to provide access to clean high-value crops crucial to nurseries and growers. This year, the network is providing support to these specialty crops through 18 clean plant centers in 14 states that ensure provide diagnostic and therapeutic services, and to help establish 'mother' plantings from which nurseries can obtain clean material vital to the specialty crop industry. The NCPN maintains mother trees in isolated orchards that are periodically tested to confirm their cleanliness, and serve as a protected source of disease tested plants for use by industry.

The NCPN provides the critically important role of screening new varieties for safe introduction to U.S. producers. New fruit and nut varieties are often considered the "life blood" required to maintain the competitiveness of U.S. producers. Our producers need the safe and affordable method provided by the NCPN to obtain new varieties from overseas sources—without this capability, illegal ("suitcase") importation of plant materials will occur, with the accompanying hazard of the introduction of exotic and destructive disease. The NCPN also plays a crucial role in enabling the exportation of nursery stock and new varieties by U.S. producers by providing testing for required phytosanitary documentation.

NCPN scientists also develop new detection methodologies and provide advice to state and Federal regulatory agencies regarding certification programs. Recent advances in plant pathogen diagnostic and treatment technologies being supported by the NCPN (such as deep sequencing and cryotherapy) are allowing scientists at clean plant centers to rapidly and more fully understand and treat disease at early stages; namely to be pro-active (rather than reactive) in their elimination of disease causing organisms *before* they become a problem.

The NCPN coordinates regional clean plant facilities into a cohesive and efficient national network, providing a forum for the exchange of technical information, coordinated planning between clean plant centers and the harmonization of certification standards which will allow the safe interstate/inter-regional and international movement of nursery stock. NCPN, working in states such as Michigan, Oregon, and Pennsylvania, is exploring opportunities to more efficiently and rapidly facilitate the movement in the nursery trade of clean plants such as fruit trees, nut trees, and berries.

Select accomplishments of the NCPN for all five specialty crops—fruit trees, grapes, berries, citrus, and hops—include the following:

- About 800 plant accessions annually undergo crucial diagnostic and therapeutic services;

- About 5,000 plant accessions of the greatest industry interest are maintained in secure quarantine foundation plantings;
- About 30,000 tests are conducted annually on plants in the field to ensure their continued freedom from disease causing organisms, thus ensuring their safe availability to industry;
- About 200,000 clean buds, scions, and rootstock are made available annually to nurseries and growers, much of this supporting the fruit and tree nut industry;
- Support to five specialty crop industries (fruit trees as well as grapes, berries, citrus, and hops) at 18 clean plant centers in 14 states.

We see the NCPN as one of the very brightest success stories of the farm bill. Before the NCPN was formed in 2009, regional clean plant facilities served the orchard and nursery industries with good cooperation and interaction but without the robust coordination and adequate resources provided by the new national network. Continued funding of the NCPN under the farm bill is essential to maintaining and improving the network's role of protecting U.S. nursery and specialty crop producers, the home landscape, and even the environment.

Plum Pox Virus—a Farm Bill Sec. 10201/10202 Success Story

Plum pox virus (PPV), a serious disease of stone fruit, was first detected in the United States in September 1999. Overall, more than $4.5 million in Farm Bill Sec. 10201 funding from 2009 through 2011 went toward local and national detection surveys to mitigate or manage immediate threats from the disease to U.S. stone fruit growers in Pennsylvania, New York, and Michigan. In 2009, USDA–APHIS and state partners used farm bill funding to complete the last stage of intense monitoring to declare eradication of PPV in Pennsylvania.

Without 10201 funding eradication efforts in Pennsylvania may not have been successful. For successful eradication, surveys must be ongoing for several years, even after an area has tested negative. Such programs are expensive to maintain and without additional Federal funding, Pennsylvania may not have sustained its PPV eradication program to completion.

To quote Benjamin Franklin's most famous adage, "An ounce of prevention is worth a pound of cure." The overall cost of the Pennsylvania plum pox eradication effort—including surveys, indemnifications for removal of orchards and impacts to the local community—is estimated in USDA studies to be close to $50 million. The $5 million annual funding of the National Clean Plant Network via Sec. 10202 of the farm bill is a well-spent "ounce of prevention" that will enable the safe importation of plant materials, thereby reducing or eliminating the temptation for illegal ("suitcase") importations and the accompanying risk of the introduction of serious pests and disease.

The CHAIRWOMAN. Thank you very much.

And now we have Mr. Michael Jarrard.

STATEMENT OF MICHAEL JARRARD, PRESIDENT AND CHIEF OPERATING OFFICER, MANN PACKING COMPANY, SALINAS, CA

Mr. JARRARD. Thank you, Chairwoman Schmidt and Members of the Committee, for this opportunity to testify this morning. My name is Mike Jarrard. I am the President of Mann Packing Company located in the Salad Bowl capital of the world, Salinas, California. Our company grows and processes fresh vegetables in California, Arizona, and Mexico and distributes them to consumers nationwide and Canada. We are local, national, and international contributing to the health and wellbeing of people in California and across the country.

Additionally, I also serve as the Chairman of the Board for Western Growers Association, an agricultural trade association comprised of California and Arizona growers responsible for providing nearly half the nation's nutritious and healthy fresh fruits and vegetables and nuts. Indeed, Western Growers has long stood proud of our belief that we grow the best medicine.

No discussion of the farm bill and specialty crops can begin without pointing out the benefits from the Specialty Crop Block Grant

Program. This is one of the signature achievements in the 2008 bill and we strongly urge you to continue and even enhance funding for this innovative approach that creates a Federal-state partnership designed to enhance the competitiveness of the industry.

Why are producers so interested in this program? Because unlike many Federal programs, the block grant program's design is responsive and tailored to meet local needs. As designed, the program is administered by state governments who are permitted within Federal guidelines to choose competitively selected products to the particular concerns of specialty crop producers in each state. The program's design is thus very flexible.

For example, in my home State of California last year, block grant money was used to fund, among many priorities, several projects at the Center for Produce Safety at the University of California, Davis. These projects addressed ongoing research needs to validate and improve on-farm practices to continuously improve food safety.

California is not the only beneficiary of this flexible approach. Last year in Florida, block grant funding was used to develop the next generation of pesticides and fungicides for avocados. Work funded in Minnesota increased the financial planning skills of specialty crop growers there. Funding in Ohio educated producers about the new Food Safety Modernization Act rules. Finally, funding in Oklahoma developed a curriculum to educate pre-K school children about the health benefits of eating fresh fruits and vegetables.

All 50 states benefit from the block grant program and the Senate Committee version of this farm bill enhances funding for this critical need. We ask the House to do the same.

The 2012 Farm Bill must renew a commitment between specialty crop growers and America's children, as well as those less fortunate via the purchase and distribution of our produce through the nutrition programs. I know you will hear later from witnesses regarding the importance of nutrition programs, but I want to emphasize that for our growers nutrition programs are as important for both feeding our less fortunate and our nation's children who need assistance while at the same time benefitting our industry economically. Therefore, we view the Fresh Fruit and Vegetable Program and Specialty Crop Purchases in Section 32 of the Department of Defense Fresh Program as important to our interests. Our growers are proud to be part of those efforts and want to maintain the increased role that specialty crop produce has in nutrition programs since the 2008 Farm Bill as we move forward to 2012.

I especially want to highlight the Fresh Fruit and Vegetable Program in that regard. This program, by providing students with the fresh fruit or vegetable snack every day at school increases their consumption of a wide variety of fresh fruits and vegetables, creates a healthier food environment at school, and positively affects family eating habits. This program is especially powerful when linked with focused educational efforts and can lead children down a pathway toward healthy fruit and vegetable choices.

Fresh Fruit and Vegetable Program provides an opportunity for the produce industry to grow its future while at the same time helping society now. Why? Because today it is widely recognized that the rate of obesity in our nation's children is drastically rising. Obesity in America is now adding an astounding $190 billion to our annual healthcare costs, exceeding smoking as public health enemy number one. Furthermore, just yesterday, the Centers for Disease Control and Prevention released a report estimating that 32 million more Americans will become obese by 2030, increasing the annual price tag to $550 billion.

Eating habits are developed at an early age, and if children can learn healthy eating habits, they are more likely to carry those habits into adulthood. It is well documented that long-term healthy eating can significantly reduce the risk of many chronic diseases. It is for those reasons that the joint USDA and United States Health and Human Services dietary guidelines have routinely called for an increase in the consumption of fruits and vegetables among Americans of all ages. The Bush Administration in 2005, for example, recommended a doubling of fruit and vegetable consumption, a call to action the Obama Administration echoed in the 2010 report.

On behalf of Mann Packing and the California and Arizona specialty crop industry, I am appreciative of this Committee's willingness to examine the issue that affects us now and the 2012 Farm Bill might be beneficial to helping our industry thrive. Thank you.

[The prepared statement of Mr. Jarrard follows:]

PREPARED STATEMENT OF MICHAEL JARRARD, PRESIDENT AND CHIEF OPERATING OFFICER, MANN PACKING COMPANY, SALINAS, CA

Chairman Lucas, Ranking Member Peterson and Members of the Committee, thank you for the opportunity to testify this morning. My name is Mike Jarrard. I am the President and COO of Mann Packing Company, located in Salinas, CA. My company ships field-packed and fresh-cut, value-added vegetable commodities to customers nationwide. We are local and national, contributing to the health and well-being of people in California and across the country. In addition to serving as President and COO of Mann Packing, I also currently serve as Chairman of the Board for Western Growers Association, an agricultural trade association headquartered in Irvine, California. Western Growers members are small, medium and large-sized businesses that produce, pack and ship almost 90 percent of fresh fruits, nuts and vegetables grown in California and approximately 75 percent of the fresh fruits, nuts and vegetables grown in Arizona. Western Growers members produce in—and directly contribute to the economies of—29 states overall. In total, Western Growers members account for nearly half of the annual fresh produce grown in the United States, providing American consumers with healthy, nutritious food. Indeed, Western Growers' has long had the slogan: "We grow the best medicine".

Many decades ago as farm bills were debated here in the halls of Congress, my predecessors in the specialty crop industry used to have one refrain: "just leave us alone, our markets and industry is just fine". Those days faded away long ago however as our industry began to face enormous pressure that went beyond the capacity of any one grower to handle. Today growers in California face pest and disease concerns on a scale that we have never seen which could cripple entire commodity groups. Our growers must also prepare themselves for food safety concerns, real or imagined, that can destroy markets here or overseas. Growers face natural resource pressures and accompanying regulatory burdens that we could not have imagined even a decade or so ago. Our growers like many in agriculture, also face an unsettled labor situation that constantly creates uncertainty. We face all these threats while we continue to try to grow healthy nutritious food for Americans and people around the world.

As our industry began to face these outside forces, we came together to seek out a new paradigm in U.S. agriculture policy. It took many, many years to get a seat at the table, but the Specialty Crop Competitiveness Act of 2004 followed by the 2008 Farm Bill provided, for the first time, meaningful investments in specialty crops to enhance the competitiveness and profitability in this strategic area of U.S.

agriculture. I wanted to acknowledge that work and the efforts of those of you on this Committee who participated in those efforts. As we look forward to the 2012 bill, we want to build and expand upon those groundbreaking changes—all of which have helped our industry.

Enhancing the Industry's Competitiveness

No discussion of the farm bill and specialty crops can begin without an immediate conversation about the Specialty Crop Block Grant Program. This is one of the signature achievements in the 2008 bill and we strongly urge you to continue, and even enhance, funding for this innovative approach that creates a Federal-state partnership designed to enhance the competitiveness of the industry. Why are producers so interested in this program? Because the program is designed to be responsive and is tailored to meet localized needs—unlike so many Federal Government programs. As designed the program is administered by state governments who are able, within Federal guidelines, to tailor competitively selected projects to the particular concerns of specialty crop producers in each state.

The program's design is thus very flexible. For example in my home State of California last year block grant money was used to fund, among many priorities, several projects at the Center for Produce Safety at UC Davis. These projects addressed ongoing research needs to validate and improve on-farm practices to continuously improve food safety. Last year in California, funds were also used to help socially disadvantaged growers improve production and increase their marketing efforts. California is not the only beneficiary of this approach. Last year in Florida, block grant funding was used to develop the next generation of the pesticides and fungicides for avocados. Work funded in Minnesota helped increase the financial planning skills of specialty crop growers there. Funding in Ohio helped educate producers about the new Food Safety Modernization Act rules. Finally, funding in Oklahoma developed a curriculum to educate pre-K school children about the health benefits of eating specialty crops. All fifty states benefit from this program, and the Senate Committee version of the farm bill enhances funding for this critical program. We ask that the House do the same.

The Farm Bill as a Critical Tool in Addressing Pest and Disease

For specialty crop producers Federal dollars spent on pest and disease control represent vital opportunities to strengthen our industry and protect our livelihoods. Every year growers across the country face potentially devastating outbreaks of destructive pests and debilitating disease. For growers in my home State of California for example we face outbreaks of an invasive pest or plant disease on regular basis—often from foreign countries. With no control over the borders in order to prevent an infestation from abroad, we believe it is incumbent upon the Federal Government to support outbreak prevention efforts and the economic impact of that these events may cause.

Fortunately, farm bill funding in the form of the Plant Pest and Disease program is used for early plant pest detection and surveillance, for threat identification and mitigation of plant pests and diseases, and for technical assistance in the development and implementation of audit-based certification systems and nursery plant pest risk management systems. Farm bill funding through the Specialty Crop Research Initiative is used to help develop the next generation of crops and/or technologies that will be able to better resist threats from pests and disease. This one-two punch of short and medium term efforts of identification and interdiction combined with long-term research is critical to our industry and must be maintained in the 2012 Farm Bill in order to combat current and future threats. In addition, I note that the Senate Committee bill enhances funding for the USDA Office of Pest Management. This office acts as a liaison and counterweight on behalf of agriculture with the EPA on various pest management issues—we would ask that the House likewise fund this office.

Ensuring that Our Nation's Children Access Fresh Fruit and Vegetables

The 2012 Farm Bill must renew a commitment between specialty crop growers, and America's children and those less fortunate via the purchase and distribution of our produce through the nutrition programs. I know you will later hear from witnesses regarding the importance of nutrition programs, but I want to emphasize that our growers view those programs as important for both feeding our less fortunate and our nation's children who need assistance, while at the same time benefiting our industry economically. Our growers are proud to be part of those efforts and we want to maintain the increased role that specialty crop produce has had in nutrition programs since the 2008 Farm Bill as we move forward in 2012.

We therefore view the Fresh Fruit and Vegetable program, specialty crop purchases in section 32 and the DOD Fresh program as important to our interests. I especially want to highlight the Fresh Fruit and Vegetable (FFVP) program in that regard. This program by providing students with a fresh fruit or vegetable snack every day at school, increases their consumption of a wide variety of fresh fruits and vegetables, creates a healthier food environment at school and positively affects family eating habits. This program is especially powerful when linked with focused educational efforts and can lead children down a pathway toward healthy fruit and vegetable choices. FFVP provides an opportunity for the produce industry to grow its future while at the same time helping society now. Why? Because today, it is widely recognized that the rate of obesity in our nation's children is drastically rising. Eating habits are developed at an early age and if children can learn healthy eating habits the more likely they are to carry those habits into adult hood. It is well documented that long-term healthy eating can significantly reduce the risk for many chronic diseases. It is for those reasons that the joint USDA and United States Health and Human Services (HHS) dietary guidelines have routinely called for an increase in the consumption of fruits and vegetables among Americans of all ages. The Bush Administration, in 2005, for example recommended a *doubling* of fruit and vegetable consumption, a call to action the Obama Administration echoed in the 2010 report.

The Farm Bill as a Tool to Improve Trade

Federal Government investment in our agricultural sector requires a fair, level playing field with international competitors who do not face the regulatory burdens of U.S. producers. To that end, the farm bill provides $200 million annually for the Market Access Program that helps all agricultural sectors in marketing products overseas. Likewise the farm bill also provides $9 million annually for technical assistance to specialty crop producers as American producers face technical barriers to trade. The latter program is particularly significant to our industry given the numerous phytosanitary trade barriers that we face in markets around the world. To pick one example among many, during 2011 China maintained trade barriers against Californian pears, apples, and strawberries. Both of those trade programs help our growers export to foreign markets and I urge the House to maintain those programs at those levels.

Improving Resource Management through the Farm Bill

Farm bill dollars assist producers across the country to better and more efficiently use resources. For California's growers these programs help us address a myriad of resource concerns but I wanted to highlight at least one that seems to always be an issue in my state: water. Farm bill programs such as the Environmental Quality Incentives Program (EQIP) provide critical resources to upgrade irrigation systems and improve on-farm water use efficiency through other techniques—this helps address the issue in the short and medium term. Coupled with these efforts are Federal research dollars that help our industry plan for the longer-term by developing the next generation of crops that will use less water. For our growers you can see how the farm bill is critical to our industry's long and short-term survival. Ensuring the farm bill continues investing in these priorities is especially important to our state in which competition for resources is intense and growing.

I did want to address one other specific area of concern with respect to resource management: air quality. As the Committee knows, the 2008 bill provided specific funding for areas that face air quality controls. That provision benefited many growers in the San Joaquin Valley but I understand that this provision is likely to be eliminated and potentially replaced. We hope that if the House chooses to replace those provisions with a new "Regional Conservation Partnership Initiative" model that California and other states', air quality concerns are reflected in conservation spending going forward.

Labor Concerns as a Critical Issue

While I know this issue is not directly in the jurisdiction of this Committee or the farm bill, I would be remiss if I did not mention the critical need to address labor issues. Agricultural producers across the country want a legal and stable workforce. Not only is agriculture's role in maintaining a safe and secure food supply vital to our economic recovery, it is critical to the strength of rural America. Western Growers members and their employees are members of the very communities in which they grow, pack, and sell products. In 2009, when the California water crisis forced us to fallow 500,000 acres in the Central Valley, thousands of farms jobs were lost, and rural non-farm businesses supported by these jobs suffered. Some communities realized unemployment levels of 40 percent.

Without a workable agricultural program, growers in California and across the country will eventually face similar predicaments. Securing a legal workforce is not a new challenge for agriculture. We've been working towards this goal for over 15 years. But Congress' failure to pass immigration reform, combined with a diminishing labor supply, threats due to I–9 audits by Immigration and Customs Enforcement, and now mandatory E-Verify legislation emerging at the state and the Federal levels, it is clear that U.S. agriculture will be decimated without a workable mechanism to hire and continue to employ the labor we need. While this can not be addressed as part of the 2012 Farm Bill I urge every Member of this Committee to work toward a solution.

Crop Insurance

This has been a hot topic during this farm bill and I suspect that specialty crop organizations around the country have discussed this issue more over the last few months than we have over the last few years, as the safety net for program commodities moves towards revenue based crop insurance products. While we are interested in exploring how crop insurance could be useful to our industry, we also want to ensure that changes to the system do not distort normal market cycles. Why do we have concerns? We are worried that ill-conceived or overly generous crop insurance products might distort market signals. In 1999 RMA authorized a watermelon program in several states—a program that had disastrous national consequences. When that program rolled out watermelon plantings and production in Florida and Texas increased dramatically causing the national watermelon market to collapse in turn adversely impacting many, including producers in California.

While we know that this program was not properly implemented and agency changes have been made since 1999, this example serves as a cautionary tale to us about how an expansion of crop insurance could lead to market distortion and cause a functioning market to collapse. Since it is clear that crop insurance is being expanded going forward, we are pleased that the Senate recently put some boundaries and speed bumps in place. We hope these changes to current law will prevent our concerns from materializing. Indeed, we are interested in seeing how crop insurance might be shaped to help growers deal with food safety and quarantine issues—something crop insurance to date has not fully addressed.

Ensuring a Level Playing Field

In previous farm bills, restrictions have been in place to ensure that commodity row crop growers who received government support payments were not allowed to plant specialty crops. To the extent that the 2012 Farm Bill maintains such commodity support program payments, and does not restrict payments to actual planted acres, then we would suggest that planting restrictions *must* be maintained. Specialty crop growers should not face subsidized competition—Federal tax dollars should not subsidize the production of fruits and vegetables grown by our program commodity friends.

On behalf of Mann Packing, and the California specialty crop industry, I am appreciative of this Committee's willingness to examine the issues that affect us and how the 2012 Farm Bill might be beneficial in helping our industry thrive. We look forward to working with you.

The CHAIRWOMAN. Thank you very much.

And now Ms. Schacht from Ohio.

STATEMENT OF LISA L. SCHACHT, OWNER/OPERATOR, SCHACHT FAMILY FARM AND MARKET; PRESIDENT, OHIO PRODUCE GROWERS & MARKETERS ASSOCIATION, CANAL WINCHESTER, OH

Ms. SCHACHT. Chairwoman Schmidt and distinguished Members of this Committee, I truly appreciate this opportunity to speak to you today. I wish to express my sincere gratitude of your thoughtful consideration of the horticulture industry and the producers reliant on its success. I am Lisa Schacht of Schacht Family Farm and Market, with my husband David, we have operated a small fruit and vegetable farm in close proximity to Columbus, Ohio, for over 30 years. We produce a diverse variety of crops and market them directly to the consumers, as well as wholesale to other retailers and distributors. We have capitalized on the accessibility of our farm to the public to build a loyal client base. Having ample tools to achieve this is crucial and the farm bill plays a significant role.

The farm bill has both direct and indirect impact on our farm. We do participate in redeeming SNAP and the Senior Farmers' Market Nutrition benefits. The Specialty Crop Block Grant Program, as administered in Ohio, and the Specialty Crop Research Initiative have funded projects from which we have drawn new and improved resources. These efforts, though not direct revenue to us, generally have the greatest impact. Programs like the Farmers Market Promotion Program, Fruit and Vegetable Snack Program, Farm-to-School Program, and Value-Added Grant Program have provided more residual benefit to us. And though not measurable, any effort that raises nutrition awareness has good potential to generate more revenue at the producer level. As well, this is putting more nutritious, safe food in the hands of American people.

I am also the current President of the Ohio Produce Growers and Marketers Association. This is a statewide industry association representing all specialty crop enterprises in my state ranging from very large to very small. Today, I want to briefly highlight the programs in the farm bill that we view as a priority of the horticulture industry.

First, SNAP and nutrition programs: these programs have attempted to drive benefit recipients to producers, and across Ohio, producers have reached out to the recipients. As a result, there is significant increase in farmers markets with electronic transfer access. I began in the days of the paper vouchers. The use of the EBT card has reduced the paperwork burdens to those of us redeeming benefits but not without some costs. In my opinion, funding for the SNAP, WIC Fruit and Vegetable Program, and the Senior Farmers' Market Nutrition Program needs to be more directed to management of the benefits. Without extensive education about practical use of the benefits, the actual return on the taxpayers' investment is crippled. The elderly and the individuals receiving the benefits must have more knowledge of fruit and nutrition to make proper choices.

Next, the research-based programs of the Specialty Crop Block Grant Program and the Specialty Crop Research Initiative are truly the favorite sons of the farm bill to our growers. I know past testimony has described these as appropriate approaches to the challenges of assisting such a diverse sector of agriculture. Ohio has various microclimates and farm populations that require efforts to be pinpointed to specific needs. These programs being administered any higher than the state or regional level will reduce the effectiveness of research needed for competitiveness. Our producers are not looking for direct payment for support but again the tools that help them be the best producers possible.

In Ohio, OPGMA has been the grant recipient recently for an ongoing food safety project. This project began as an initiative to address meeting consumer/buyer expectations of good practices and grew into a thorough educational and certification process. When similar programs have been attempted on a national level, they have been challenged because of the difficulty to get "one-size-fits-all" results. With state-specific programs, our growers will have greater potential for new or expanded marketing opportunities in and out of Ohio. Growers are involved in the process and are benefiting from the results of the funded programs.

Marketing programs: because a great number of producers in Ohio market either directly to consumers or within their local communities, promotional programs funded through the farm bill also need to be on the local level. Any broad-based efforts need to be focused on nutrition and food management education aimed at all socioeconomic groups. Also, efforts need to be unbiased in regards to cultural practices of conventional *versus* organic. Sustainability starts with economic viability. Marketing to specific consumer trends should be the responsibility of private enterprise.

And last but not least, Farm-to-School and the Fruit and Vegetable Snack Programs will hit at the core of benefitting both citizens and producers. The early introduction of good nutritional choices and better awareness of improved health will have a ripple effect. Children will develop good eating habits. Farmers who seek to participate in these opportunities will reap direct benefit through increased sales. And those continuing to market in more traditional manner should also see increases because of the potential of heightened demand.

In conclusion, I repeat that fruit and vegetable production is diverse with unique needs. Having programs in the farm bill that enhance and propel the horticulture industry must be flexible enough to serve producers where those needs are. Increased access, knowledge, and consumption of fresh produce will benefit both consumers and producers.

I thank you, Chairwoman Schmidt and the Committee, for today's invitation.

[The prepared statement of Ms. Schacht follows:]

PREPARED STATEMENT OF LISA L. SCHACHT, OWNER/OPERATOR, SCHACHT FAMILY FARM AND MARKET; PRESIDENT, OHIO PRODUCE GROWERS & MARKETERS ASSOCIATION, CANAL WINCHESTER, OH

Chairwoman Schmidt, Ranking Member Rep. Baca, and distinguished Members of this Committee. I truly appreciate this opportunity to speak with you today. I wish to express my sincere gratitude for your thoughtful considerations of the horticultural industry and the producers reliant on its success.

I am Lisa Schacht of Schacht Family Farm and Market. With my husband, David, I operate a small fruit and vegetable farm in close proximity of Columbus, Ohio. We produce a diverse variety of crops and market them directly to customers as well as wholesale to other retailers and distributors. We established our enterprise just over 30 years ago. Though also raising some USDA program crops for rotational purposes, we are not participating in their related programs. Our primary production is focused on our horticultural crops.

We have capitalized on the accessibility of our farm to the public to build a loyal client base. Our commitment to producing consistently high quality products in a sustainable fashion has created rapport with our customers. Having ample tools to achieve this is crucial. The USDA farm bill plays a significant role in this.

The USDA farm bill has both direct and indirect impact on our operation. We do participate in redeeming SNAP and the Senior Farmer Market Nutrition benefits. The Specialty Crop Block Grant Program as administrated in Ohio and the Specialty Crop Research Initiative have funded projects from which we have drawn new or improved resources. These efforts, though not direct revenue to us, generally have the greatest impact. Programs like the Farmers' Market Promotion Program, Fruit and Vegetable Snack Program, Farm to School Program, and Value Added Grant Program have been more residual in effect. And though not measurable, any effort that raises awareness has good potential to generate more revenue at the producer level. As well, this is putting more nutritious, safe food in the hands of the American people.

I am also the current President of the Ohio Produce Growers & Marketers Association (OPGMA). This is a statewide industry association representing all specialty crop enterprises. We are committed to consumer and processor satisfaction, environmentally friendly practices, business success, and the provision of fulfilling career opportunities for family and employees. Members could be small but producing an extensive variety of crops, very large producing only a few crops, or any combination of the like. Our members would tell you that specialty crop production and marketing are truly labor intensive and provide extensive economic activity in their communities.

In comparison to my farm, my OPGMA peers may have greater direct impact from the farm bill. So I wish today to emphasize the virtue of the programs written into the bill for the horticulture industry.

The SNAP and nutrition programs have attempted to drive recipients to producers. Across Ohio, producers have reached out to the recipients. There is a significant increase in farmers markets with electronic transfer access. I began in the days of the paper vouchers. The use of the EBT cards has reduced the paperwork burdens to those of us redeeming benefits, but not without some costs.

In my opinion, SNAP, WIC Fruit and Vegetable Program, and the Senior Farmers' Market Nutrition Program need more of its funds directed to better management of the benefits. Without extensive education about the practical use of the benefits, the actual return on taxpayers' investment is crippled. The elderly and individuals receiving the benefits must have more knowledge of food and nutrition to make the choices that reap their reward.

The research-based programs of the Specialty Crop Block Grant Program and the Specialty Crop Research Initiative are truly the favored sons of the farm bill to our growers. I know past testimony has described these as appropriate approaches to the challenge of assisting such a diverse sector of agriculture. Ohio has various micro climates and farm populations that require efforts to be pin-pointed to specific needs. These programs being administered any higher than the state or regional level will reduce the effectiveness of research needed for competitiveness. Our producers are not looking for direct payment for support, but, again, the tools that help them be the best producers possible. This will contribute to greater food security overall.

In Ohio, OPGMA has been a grant recipient recently for an ongoing food safety project. This project began as an initiative to address meeting consumer/buyer expectations of good practices and grew into a thorough educational and certification process. When similar programs have been attempted on a national level, they have been challenged because of the difficulty to get "one-size-fits-all" results. With state-specific programs, our growers will have greater potential for new or expanded marketing opportunities in and out of Ohio. Since the beginning of block grant funding for horticulture, stakeholders in Ohio have concertedly strove for the best results for Ohio producers. Growers are involved in the process and are benefiting from the results of the funded projects.

Because a great number of producers in Ohio market either directly to consumers or within their local communities, promotional programs funded through the farm bill also need to be on the local level. Any broad-based efforts need to be focused on nutrition and food management education. Also efforts need to be unbiased in regards to cultural practices of conventional *versus* organic. Sustainability starts with economic viability. Bringing up awareness of the health and wellness benefits of more consumption of fruits and vegetables should reach all socioeconomic groups. Marketing to specific consumer trends should be the responsibility of private enterprise.

Also, Farm to School and the Fruit and Vegetable Snack Programs will hit at the core of benefiting both citizens and producers. The early introduction of good nutritional choices and better awareness of improved health will have a ripple effect. Children will develop good eating habits. The operations seeking to participate in these opportunities will reap direct benefit through increased sales. Those continuing to market in more traditional manners should also see increases because of the potential for heightened demand.

In conclusion, I repeat that fruit and vegetable production is diverse with unique needs. Having programs in the farm bill that enhance and propel the horticulture industry must be flexible enough to serve producers where those needs are. Increased access, knowledge, and consumption of fresh produce will benefit both consumers and producers.

I thank you, Chairwoman Schmidt and the Committee, for the invitation to speak today. I recognize the challenge before you in writing the 2012 Farm Bill. Horticulture producers know firsthand what it is to balance very diverse demands. I simply ask that if possible to maintain the critical tools in the current farm bill and where conducive to expand them. Trust that our producers will be responsible with the resources they may be fortunate enough to receive.

The CHAIRWOMAN. Thank you very, very much.

And now we have Mr. Russell Libby from Maine to talk about organic farming.

STATEMENT OF RUSSELL W. LIBBY, EXECUTIVE DIRECTOR, MAINE ORGANIC FARMERS AND GARDENERS ASSOCIATION, UNITY, ME

Mr. LIBBY. Good morning, Chairwoman Schmidt and Honorable Members. I am Russell Libby, Executive Director of the Maine Organic Farmers and Gardeners Association, or MOFGA. MOFGA is the largest state-level organic association in the country with 6,500 member farms, businesses, and households. Formed in 1971, we started the country's first organic certification program in 1972, an apprenticeship program to match new farmers with experienced teachers in 1975, and hired the first organic "extension agent" in 1986. Our annual harvest celebration, the Common Ground Country Fair, draws 60,000 people each September to Unity, Maine, a town of 2,400, making it the country's largest organic food event.

We also run a highly successful new farmer training program. Of the 140 program participants over the past 12 years, 87 percent are currently farming. Our USDA-accredited organic certification program includes about five percent of the farms in Maine and 20 percent of the dairy farmers.

We have been in business for 40 years and over that time we have witnessed tremendous growth in organic agriculture and in the opportunity for farmers to rebuild local economies through food production. Our farmers have built a robust direct-to-consumer marketing movement in Maine with close to 150 farmers markets and several hundred farms offering community-supported agriculture programs. With a number of small investments and no-cost policy changes, the 2012 Farm Bill can facilitate this growth.

We are a member of the National Organic Coalition and work closely with the National Sustainable Ag Coalition, so our farm bill priorities closely mirror those.

Horticulture title: the National Organic Program does an increasingly good job of working with issues that confront organic food producers and processors around the country. The Specialty Crops Program is a long-overdue recognition of the needs of fruit and vegetable farmers from around the country.

Our suggestions: First, fund national organic certification cost-share at the level included in the Senate farm bill. Organic agriculture is a strong and growing sector of American agriculture and organic certification cost-share is an investment in business development for agriculture. Many organic farmers rely on the cost-share program to help them access markets. The program also enables farmers to remain in the organic market by offsetting annual certification fees. Farmers must meet strict organic standards to be certified and the costs of the program are going up. As the requirements for the National Organic Program become more strictly defined, the time farmers spend in record-keeping and compliance increases. Without organic certification cost-share, farmers here at home with opt not to certify and companies will have to source ingredients from overseas instead of from local farmers.

Second, encourage more organic farmer participation in critical conservation programs. The 2008 Farm Bill included important provisions in EQIP and the CSP for organic farmers. However, both programs need reform to address unique needs of organic farming systems. Issues such as unfamiliarity of NRCS staff with organic programs, overlapping planning requirements with NOP, and lack of adequate planning assistance should be addressed in the next farm bill.

Third, help the National Organic Program to be more effective. The National Organic Program enforces national organic standards, accredits certifiers, develops equivalency agreements, handles complaints—in essence, ensures integrity. These are essential functions. However, the program requires a capital infusion to keep technology up to date. NOP should receive a one-time infusion of $5 million in mandatory funds for technology upgrade and then should be authorized to receive appropriations increasing at a rate of 20 percent annually beginning with $10 million in Fiscal Year 2013.

And I have a few comments on nutrition. When things work right, the full range of USDA programs make a significant difference to farmers and the general public. Linking nutrition programs to access at farmers markets, expanding EBT programs, developing more opportunities for farmers to supply school lunch, all these things make farmers more profitable.

How can you help them make this happen? First, make it easier for farmers to access EBT programs. There are many different possibilities but one of them is to really focus on treating wireless retail food vendors as fixed location stores are now treated. Second, increase the ability of school lunch programs to source directly from farmers who meet their standards by: one, allowing flexibility in schools, and two, similarly allowing schools flexibility to use commodity dollars to purchase locally available foods.

Obviously I wrote more than I have time for. I want to say just a word or two on seeds and breeds. Conventional plant breeding is critical for farmers across the spectrum. The conventional plant breeding programs are very under-funded and can use support.

And I would like to conclude just by saying that your actions in the farm bill shape the possibilities for farmers across the country and I encourage you to keep thinking about the possibilities for local food as you move forward. Thank you.

[The prepared statement of Mr. Libby follows:]

PREPARED STATEMENT OF RUSSELL W. LIBBY, EXECUTIVE DIRECTOR, MAINE ORGANIC FARMERS AND GARDENERS ASSOCIATION, UNITY, ME

"Small Changes Make Big Differences on the Ground"

Good morning, Chairwoman Schmidt and Honorable Members of the House Agriculture Committee. I am Russell Libby, Executive Director of the Maine Organic Farmers and Gardeners Association, or MOFGA. MOFGA is the largest state level organic organization in the country, with about 6,500 member farms, businesses, and households. Formed in 1971, we started the country's first state organic certification program in 1972, an apprenticeship program to match new farmers with experienced teachers in 1975, and hired the first organic 'extension agent' in 1986. We now have 26 employees who work on services to farmers, education, and outreach to the general public.

MOFGA's annual harvest festival, the Common Ground Country Fair, draws 60,000 people each September to Unity, Maine, a town of 2,400, making it the country's largest organic food event.

We also run a highly successful new farmer training program. Of the 140 program participants over the past 12 years, 87% are currently farming. Our USDA-accredited organic certification program includes about 5% of the farms in Maine, and about 20% of the dairy farmers.

MOFGA has been in business for 40 years, and in that time, we have witnessed tremendous growth in organic agriculture and in the opportunity for farmers to rebuild local economies through food production. Our farmers have built a robust direct-to-consumer marketing movement in Maine, with close to 150 farmers' markets and several hundred farmers offering Community-Supported Agriculture programs that supply about 2% of the families in Maine with produce, summer and sometimes winter, and an increasing array of products. With a number of small investments and no-cost policy changes, the 2012 Farm Bill can facilitate this growth and opportunity.

We are a member of the National Organic Coalition, and work closely with the National Sustainable Agriculture Coalition, so our farm bill priorities reflect theirs in many ways.

Horticulture Title

The horticulture title of the farm bill is critically important for organic farmers. The National Organic Program does an increasingly good job of working through issues that confront organic food producers and processors around the country. The Specialty Crop Grants program is a long-overdue recognition of the needs of fruit and vegetable farmers from around the country.

Our suggestions:

1. **Fund national organic certification cost-share at the level included in the Senate farm bill voted out of Committee.** Organic agriculture is a strong and growing sector of American agriculture, and organic certification cost-share is an investment in business development for agriculture. Many organic farmers rely on the cost-share program to help them access markets (retailers, specialty food processors). The program also enables farmers to remain in the organic market by offsetting annual certification costs for farmers. Organic producers must meet strict organic standards to be certified, and the costs of certification are going up. As the requirements for the National Organic Program become more strictly defined, the time farmers spend in record-keeping and compliance increases substantially. Without national organic certification cost-share, farmers here at home will opt not to certify, and organic companies will have to source organic product from overseas instead of from American farmers to meet strong consumer demand.

2. **Encourage more organic farmer participation in critical conservation programs.** The 2008 Farm Bill included important provisions in **Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP)** for organic farmers in recognition of the historical lack of participation and conservation benefits of these systems. However, both programs are in need of reform to address the unique needs of organic farming systems. **Issues such as the unfamiliarity of NRCS staff with organic systems, overlapping planning requirements with the National Organic Program, and lack of adequate planning assistance should be addressed in the next farm bill.** By the way, one of the places that we've been very successful in the past few years is getting our new young farmers to participate in NRCS programs, which helps to strengthen the base for that agency long into the future.

3. **Help the National Organic Program (NOP) to be more effective.** The National Organic Program enforces the national organic standards, accredits certifiers, develops equivalency agreements, handles complaints—in essence, NOP ensures the integrity of the organic seal. These are essential functions to the survival and growth of the organic sector. Additionally, the program requires a capital investment in innovative technologies that will position the program to be able to grow with the organic sector, providing domestic and international oversight, and transparency and streamlining of systems, data, and information. **NOP should receive a one-time infusion of $5 million in mandatory funds for the technology upgrade, and then should be authorized to receive appropriations increasing at a rate of 20 percent annually beginning with $10 million in FY 2013.**

Nutrition Title

When things work right, the full range of USDA programs make a significant difference to farmers and the general public. Linking nutrition programs to access at farmers' markets, expanding EBT programs, developing more opportunities for farmers to supply the school lunch program—all of these things make farmers more profitable.

The largest programs within the farm bill are embedded in the nutrition title. If farmers are not able to provide food through programs in the nutrition title for the people who need it the most, they are shut out of a major income stream. If the people who are eligible for nutrition assistance do not have access to fresh, local produce, they may not get the full nutritional benefits from the assistance they receive. Connecting farmers with consumers who participate in nutrition assistance can benefit producers and consumers.

How can you help this to happen?

1. **Make it easier for farmers to access EBT programs.** The range of marketing options has widened dramatically over the past decade, with farmers' markets, CSAs, farmstands, buying clubs and other options. Please amend Section 7(h) of the Food and Nutrition Act of 2008 to treat wireless retail food vendors as fixed locations stores are now treated.

2. **Increase the ability of school lunch programs to source directly from farmers** who meet their standards by:

   a. Allowing flexibility in schools. Rather than requiring produce purchases through the DOD Fresh program, allow schools the option to use their DOD credit to purchase food directly from local farmers. (Requires amending *Department of Defense (DOD) Fresh program in Section 10603(b) of the Farm Security and Rural Investment Act of 2002*)

   b. Similarly, allow schools to use 15% of their 'commodity' dollars to purchase locally available foods that in turn help to support their communities. This addresses a key tension in many rural communities. Farmers support their schools through property taxes, and in turn would like their schools to be able to support them through purchases.

Other programs important to the whole.

Farmers Market and Local Food Promotion Program. As interest in direct markets grows, and farmers innovate to supply more. The expanded Farmers Market Promotion Program continues to serve direct marketers, but also includes those farm businesses that are trying to develop farm to institution and food hub opportunities across the country. It deserves more funding: the $30 million proposed in the Local Foods, Farms and Jobs Act will only scratch the surface of the current interest. Every new market opened or expanded through the program provides more jobs and keeps money circulating in the many participating communities.

Seeds and breeds. I understand that the prevailing worldview is that the solutions for the future revolve around biotechnology, but I want to say a few words in favor of all-purpose, traditional breeding. In the late 1800's, farmers in my part of western Kennebec County, Maine, were deeply engaged in the refinement of the Hereford as a cattle breed suitable for the U.S. The dry bean varieties that work in our humid Northeast climate were selected over long stretches of time by farmers, and then further refined by plant breeders at public universities. Even now farmers in New England benefit from plant breeding done at the University of New Hampshire by Brent Loy, who has developed melons and pumpkins that thrive in the Northeast. In our rush to the cellular approach, I hope we don't lose sight of the value of traditional plant breeding. The Seeds and Breeds provisions of the last farm bill were a good starting point, but we need the public plant breeders and the long-term commitment to make those varieties available.

Expanding Economic Opportunities

In conclusion, markets for farmers are changing rapidly. There are thousands of new farmers markets around the country and Community Supported Agriculture programs (CSAs) are also rising in number. In Maine, the number of farmers markets has grown tenfold in the past 30 years, and CSAs now supply about two percent of Maine families. While this growth in direct producer-to-consumer marketing it exciting, there is a nearly untapped marketing opportunity at the wholesale, retail, and institutional level of sales. Through your actions with the farm bill as I have outlined above, you can give this stage of marketing the jumpstart it needs. This larger scale represents the bulk volume of food sales, and it is in this area that the next generation of farmers is working to make inroads. With your help, small changes can truly make big differences on the ground.

Thank you. I would be happy to answer questions.

The CHAIRWOMAN. Thank you so much.

And now our final panelist is Mr. Richey, from Florida.

STATEMENT OF DANIEL R. RICHEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RIVERFRONT PACKING COMPANY; MEMBER, BOARD OF DIRECTORS, FLORIDA FRUIT & VEGETABLE ASSOCIATION, VERO BEACH, FL

Mr. RICHEY. Good morning. I would like to thank Chairwoman Schmidt, Ranking Member Baca, and the Subcommittee of the opportunity to appear before you today. I would also like to thank Committee Members Tom Rooney and Steve Southerland, who represent a sizeable portion of Florida's agricultural production for their strong support of our industry. My name is Dan Richey. I am President and CEO of Riverfront Packing Company in Vero Beach, Florida. I am testifying today on behalf of the Florida Fruit & Vegetable Association and as a veteran citrus grower and shipper.

As we look towards the next farm bill, I would like to focus on two areas of vital concern to growers in my state and specifically Florida citrus. First is the impact of invasive plant pests and diseases which pose a dire threat to the future of our industry. Today, citrus growers and shippers in Florida are dealing with citrus canker, greening, and black spot, a triple threat of diseases that have caused severe economic harm and challenged the sustainability of the citrus industry, which is a major contributor to the economy in Florida, our fourth-largest state.

Let us focus for a moment on a citrus canker-related example. Citrus canker was declared endemic after the hurricanes of 2004, 2005, spread it to the point that eradication was no longer a viable option. Initially, we were prevented from shipping any fruit due to the fear that fruit could possibly spread the disease. Fortunately, over time, a global consortium of researchers determined that fruit is not a pathway for the spreading of this disease. We eventually regained access to other citrus-producing states in the U.S. and other countries such as Japan and Korea which acknowledged and accepted the science.

However, Europe has refused to accept the science and has imposed Draconian restrictions upon us. As a result, in the past 8 years since the imposition of its regulation by the EU, our shipments to the EU have declined from 9.5 million cartons to 2.7 million cartons. With fewer shipments going to Europe, this has created an oversupply of citrus destined for another significant export market, Japan. Prices have dropped off and our revenues are down 21 percent this year over last. In short, canker has caused a significant decline in our market prices due to the non-tariff trade barrier imposed on us by the Europeans based on an invasive disease that arrived on our shores. This is but one example. There are many others.

We desperately need dedicated research funding and assistance to be able to combat these pests and diseases and other pending threats such as sudden death and CBC. Our growers have spent over $40 million of our own dollars over the past 4 years towards defeating the disease challenges, but we cannot do it alone. That is why we were extremely pleased that the 2008 Farm Bill established a number of tools that can help producers address these challenges that impact us both domestically and internationally and particularly tasked the Technical Assistance Specialty Crops, which was established in the 2002 Farm Bill and enhanced in the 2008 Farm Bill and is a critical and effective mechanism for reducing technical barriers to trade and foreign markets.

Second, the Specialty Crop Research Initiative, which was established as a competitive grant program designed to address and develop solutions to critical issues like invasive pests and food safety.

And third, Section 10201 of the 2008 Farm Bill, which has provided critical funding and direction for innovative initiatives to identify and mitigate offshore threats and improve pest detection and rapid response in the U.S., thereby also improving domestic growers' ability to export product to other countries.

It is critically important that Congress continue these important programs and build on the successes they have created over the last 4 years. On a much brighter note, thanks to several Federal and state nutrition initiatives focused on children in schools, we are beginning to make a significant difference to health and wellbeing of an entire generation of Americans.

In Florida, for example, the Department of Agriculture now has responsibility for school feeding programs. It is a win-win proposition for children and our producers. From a big picture standpoint, children benefit because the quality of their school meals will improve and they will learn healthy eating habits that can last a lifetime. The good news for growers is that it creates powerful possibilities for new markets and consumers.

In addition, the Federal Government's new dietary guidelines call for half of the plate to be fruits and vegetables. The Fresh Fruit and Vegetable Program which provides school children a snack each day has been a great success, this year reaching more than four million low income elementary schoolchildren nationwide.

Also, new rules from the USDA require more fruits and vegetables to be served in school breakfasts and lunches. All of these factors combine to provide the perfect opportunity for specialty crop producers to connect with consumers and increase consumption of healthful fresh produce. To do that, we need a farm bill that provides specialty crop producers the tools they need in order to grow and market safe, wholesome, and affordable fruits and vegetables.

Many of the pressures that specialty crop producers and my family operation face are similar to those producers of other commodities—increased regulation, high energy costs, transportation costs, and input costs. However, the perishability of our crops results in different and unique challenges for our producers. We hope these unique characteristics can be addressed through programs and policy in the upcoming farm bill that drive domestic consumption and expand foreign market access while also investing in research, food safety, conservation, and pest exclusion policies that will benefit both specialty crop producers and those who consume our products.

Again, thank you for the opportunity to testify today.

[The prepared statement of Mr. Richey follows:]

PREPARED STATEMENT OF DANIEL R. RICHEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RIVERFRONT PACKING COMPANY; MEMBER, BOARD OF DIRECTORS, FLORIDA FRUIT & VEGETABLE ASSOCIATION, VERO BEACH, FL

Good afternoon. I would like to thank Chairwoman Schmidt, Ranking Member Baca and the Subcommittee for the opportunity to speak with you today on behalf of the Florida specialty crop industry.

I also would like to thank Congressman Tom Rooney and Congressman Steve Southerland, who are both Members of the Subcommittee and represent a sizable portion of Florida's agriculture production, for their strong support of our industry.

My name is Dan Richey, and I'm President and CEO of Riverfront Packing Company in Vero Beach, Florida. I'm testifying today on behalf of the Florida Fruit & Vegetable Association as a veteran citrus grower and shipper. FFVA's members represent the vast majority of fresh fruit and vegetable production in my home state. The association's President, Mike Stuart, co-chairs the Specialty Crop Farm Bill Alliance, a national coalition of more than 120 organizations representing growers of fruits, vegetables, dried fruit, tree nuts, nursery plants and other products. The alliance was established to bolster the competitiveness of specialty crop agriculture and improve the health of Americans by broadening the scope of U.S. agricultural public policy.

I'd like to talk to you about two issues that are of vital concern to growers in my state and specifically the industry I represent, Florida citrus. First is the serious problem of invasive plant pests and diseases, which pose a dire threat to the future of our industry. I also would like to discuss some very positive developments taking place in Florida with regard to nutrition and increased consumption of fresh fruits and vegetables. Our hope is that the next farm bill will continue the investments in the specialty crop industry that Congress first made in the 2008 Farm Bill.

Pests and Disease

Florida agriculture is the second largest industry in the nation's fourth largest state. In 2010, Florida had agriculture exports of more than $3.1 billion, ranking seventh in the United States. Fresh fruits and vegetables accounted for almost $700 million of those exports. Florida citrus alone is a $9 billion industry that fuels our state's economy by providing 76,000 jobs.

Today, citrus growers and shippers are dealing with citrus canker, greening, and black spot—a triple threat of diseases that have caused severe economic harm. These diseases are a direct result of our state's porous borders. After 9/11, the focus of border inspections shifted from agriculture to homeland security, leaving our crops vulnerable to myriad invasive pests and diseases. Now we are paying a very high price.

I'll focus on what has happened to our industry since canker was first discovered. Initially, we were prevented from shipping any fruit with lesions that indicated the disease. Fortunately, over time a global consortium of researchers determined that fruit is not a pathway for the disease. We eventually regained access to other citrus-producing states in the U.S. and other countries such as Japan and Korea, which acknowledge the science.

However, Europe remains in "lockdown" mode—a clear example of a non-tariff trade barrier imposed on us. Now, at additional cost, we must have USDA or a state-designated agency certify any grove with fruit that may be destined for Europe as canker-free. We also must inspect it at the packinghouse to ensure no fruit has lesions. As a result, in the past year our shipments to the EU have declined by a million cartons, or about ten percent.

But this trade barrier has wider implications. With fewer shipments going to Europe, there is an oversupply for citrus destined for another significant export market: Japan. Prices have dropped off, and our revenues are down 21 percent. In short, canker has caused a significant decline in our market prices due to a non-tariff trade barrier imposed on us by the Europeans.

These plant pests and diseases came into our state because our borders are unprotected. We desperately need dedicated research funding and assistance to be able to fight canker, black spot, greening and whatever else is right around the corner. We can't do it on our own.

As you can see, the challenges we face on the ground have a broad impact on our industry. That is why we were extremely pleased that the 2008 Farm Bill established a number of tools that can help producers in our industry address these important impediments that impact us both domestically and internationally.

In particular, Technical Assistance to Specialty Crops (TASC), which was established in 2002 Farm Bill and enhanced in the 2008 Farm Bill, is a critical and effective mechanism for reducing technical barriers to trade that limit specialty crop grower's access to many markets overseas. TASC's major focus is to address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. specialty crops.

In addition, the Specialty Crop Research Initiative (SCRI) was established as a competitive grant program for specialty crops that incorporates the prevention, detection, monitoring, control, and response to food safety hazards in the production and processing of specialty crops, including fresh products. The 2008 Farm Bill was the first Federal legislation to provide the significant funding required to begin to address the considerable research and extension needs of the country's specialty crop producers and processors. Its emphasis on stakeholder involvement, a competitive funding process, and a matching funding requirement was a welcome shift in Federal policy. The SCRI explicitly sought to address short-, mid-, and long-term stakeholder needs. Nationwide, specialty crop industries are grateful for this unprecedented initiative and are already benefiting from significant research outcomes.

Finally, Section 10201 of the 2008 Farm Bill has provided critical funding and direction for innovative initiatives to identify and mitigate offshore threats, and improve pest detection and rapid response in the U.S., thereby also improving domestic growers' ability to export product to other countries.

The pest prevention mission of public agricultural agencies in the United States is to protect agriculture, the environment, and its citizens from the economic and environmental harm that injurious plant pests can cause. Satisfying this mission while, at the same time, providing for equitable and orderly domestic and international trade, is a major challenge. It is vital that the United States maintains its responsibility for the protection of the nation's food supply, our agricultural economy, and plant health. Therefore, policies established under the 2008 Farm Bill provide the greatest opportunities for the reduction in risks, establish a consistent and clear communication structure, and provide for problem resolution with built-in accountability. We believe Congress should continue these important programs and build on their successes over the last 4 years.

Nutrition

On a much brighter note, specialty crop growers in my state have a unique market opportunity. Under the direction of Agriculture Commissioner Adam Putnam, the Department of Agriculture and Consumer Services now oversees the school food and nutrition programs. The Healthy Schools for Healthy Lives Act, which became effective January 1, gave the department the responsibility to educate students on nutrition and to ensure they have access to the healthful products provided by fresh fruit and vegetable producers throughout the state.

From a big-picture standpoint, children benefit because the quality of their school meals will improve, and they will learn healthy eating habits that can last a lifetime. Diseases attributed to obesity and poor eating habits—high blood pressure, diabetes and heart disease—are a major contributor to soaring health-care costs.

The good news for growers is that it creates powerful possibilities for new markets. We now can have a presence in the lunchroom in the schools of Florida 180 days a year to tell our story and build it into lesson plans. Specialty crop producers have the opportunity to develop a loyal customer base among school districts, which feed 2.5 million children every day, and in many cases twice a day, in addition to summer feeding programs.

The timing couldn't be better. The Federal Government's new dietary guidelines call for half of the plate to be vegetables and fruits. The Administration has taken aim at child obesity with the Let's Move program, which focuses on healthy eating and physical activity. There is significant interest by consumers in eating food that is produced domestically, regionally or locally. The Fresh Fruit and Vegetable Program, which provides school children a snack each day, has been a great success. It introduces children to a variety of fresh produce they may have never tried. In addition, this highly effective program provides young students with a fresh fruit or vegetable snack every day at school and increases their overall consumption of a wide variety of fresh fruits and vegetables. Nationally, the program will reach more than four million low-income elementary school children nation-wide this coming school year. My State of Florida will receive $6.2 million this school year to implement the Fresh Fruit and Vegetable Program; this will allow 22 of our elementary schools to participate and approximately 70,000 students to benefit.

In addition, new rules from the U.S. Department of Agriculture require more fruits and vegetables to be served in school breakfasts and lunches. School districts that meet the guidelines receive an additional 6¢ of Federal reimbursement for each meal. All of those factors provide the perfect backdrop for the specialty crop industry to connect with consumers and increase consumption of healthful fresh produce.

To do that, though, we need a farm bill that expands access and availability of safe, wholesome and affordable fruits and vegetables. Although I'm representing the grower community today, support for nutrition programs is important in every Congressional district, not just those in which producers operate.

Conclusion

We look forward to working with the Committee on the development of the next farm bill. Many of the pressures that specialty crop producers and my family farm face are similar to those of producers of other commodities—increased regulation, high energy costs, transportation costs and input costs. However, the perishability of our crops result in different marketing strategies, market requirements and the need to move our products to market quickly. We hope these unique characteristics can be addressed through agricultural policies that drive domestic consumption, and expand foreign market access while investing in research, food safety, conservation and pest exclusion policies that benefit the members of the specialty crops industry.

Like producers of program crops, fruit and vegetable growers face significant challenges in the production and marketing of their commodities that must be addressed if they are to be competitive in an increasingly global marketplace. We ask that the Committee continue to build on the foundation and investment of the 2008 Farm Bill and ensure that our important issues are appropriately addressed as you move forward in the development of the 2012 Faun Bill. We certainly recognize the fiscal constraints facing the Congress; however, the many challenges facing our industry will only worsen if real and adequate policy reforms are not provided through a farm bill that appropriately meets the needs of the broad U.S. agriculture community.

Again, thank you for the opportunity to testify today. The Florida Fruit & Vegetable Association and the Specialty Crop Farm Bill Alliance look forward to working with you on a farm bill that will continue to invest in specialty crop agriculture, keeping our industry strong and competitive in the global marketplace.

The CHAIRWOMAN. And thank you.

And I would like to announce that Mr. McGovern, the gentleman from Massachusetts, who is not a Member of this Subcommittee, has joined us today. And I have consulted with the Ranking Member and you are totally welcome and we hope that you will ask some questions when you are called. And we may have other Members join us as well.

I would like to begin by asking the panel a general question. Given the fiscal constraints we are dealing with, where should we prioritize funding for specialty crop programs? Who wants to take a shot at that?

Mr. LEE. Well, in the nursery industry, what we have been doing is looking at the process of the old regulatory framework of saying I am going to have a pest-by-pest program, quarantine. I am going to have a shipment-by-shipment inspection. It is not going to be sustainable going forward. Most of the section 10201 funding that we have looked at was a coordinated effort of using best management practices and having that being done on the nursery level, requiring less inspections. We have also managed to find out that by looking at these various BMPs, we can apply them not only to one set of pests but to multiple sets of pests, reducing the need for any additional type audits for those kind of things.

So we have seen a great deal of success in pooling those type programs together that would be less labor-intensive in the future. I do have to say that to be able to pull that off, it took a very much coordinated effort between the stakeholders, USDA, National Plant Board, all those people involved sitting at the table because we saw that these programs, once we start having those discussions, we are able to take existing programs and modify them slightly making them easier to use, less labor-intensive. And we are also able to apply them to additional pests.

The CHAIRWOMAN. Thank you.

Anyone else?

Mr. RICHEY. Madam Chair, just to reiterate maybe some of my oral testimony, there are three areas that are of keen interest to our industry and are broad-reaching. And one of those is the Specialty Crop Research Initiative. That is an area of significant funding but has a broad reach. Citrus greening may be the poster child for that program when you think about Texas, Arizona, Florida, California, and we are wrestling with this in more of a global sense. And that program is one that has a significant funding that can be overarching and overreaching to be able to assist us in that regard.

Certainly continuation of the state block grants, that has been a very great benefit to us. Those dollars have been deployed on a competitive basis in a very positive manner from small producers to large producers all the way, facing the whole gamut there.

And certainly Section 10201, that has been also again used in Florida specifically for port interdiction. We are number two second to California as far as ranking relative to the potential for disease proliferation and introduction. And that program has been very beneficial in an outreach. The Don't Pack a Pest Program that is in all of the airports and seaports has been very effective.

So those are three areas that I would like to ask for your consideration on continuation and funding at adequate levels.

The CHAIRWOMAN. Thank you. You know, I hear the term *buy local,* and even in my own community *buy local* has a variety of definitions and I was wondering how each of you would define *buy local.* What does that mean?

Mr. JARRARD. I will start by answering that or try to answer that. Local means a lot of different things to a lot of different people but the best way to approach the issue is really just consider that all produce is good produce whether it is organic, whether it is local, or whether it is conventional. Let the market determine and the consumer determine how they want to purchase their produce and from whom they want to purchase that. So it is a very tough definition to describe but again let the market determine which avenue they pursue their produce purchases from.

Ms. SCHACHT. I tend to agree with him that mine is a local market and I draw from my community and outskirts of Columbus. The consumer will ultimately decide that. They will make their decisions and their choices according to what they value in that if we are given those tools through the research initiative or the block grants to have the highest quality produce, it is not going to matter if it is organic or convention or if it is from a bordering state to your state as well if it is the high-quality nutritious food that the people need in their hands.

Mr. LIBBY. I would just add that I think one of the benefits to everybody at the table from the movement toward more local food eating is that people get in the habit of eating fruits and vegetables who may not have had that habit before. So in the Northeast where seasonal growers, people start eating fruits and vegetables and eat more of them because they have a relationship with a farmers market or a CSA and then they go looking the rest of the year and they go looking for high-quality product from wherever they can find it. So it is really changing people's daily habits through the exposure to direct marketing that is making a big difference out there.

The CHAIRWOMAN. Thank you. Now, I am going to turn my attention to the senior Minority Member, Ms. Pingree.

Ms. PINGREE. Thank you very much, Madam Chair. Thank you again for holding this hearing today. It has been fascinating really. I appreciate all of your testimony. And while I want to focus a little bit on some of the issues around local produce and farming, I appreciate what Russ Libby just said, that part of what we are all talking about is developing healthier food habits, getting people to eat more fruits and vegetables. This is about making them more available to people whether they buy them on SNAP benefits or from the senior program, or get them in school lunch, educating people to cook with healthy foods and vegetables, these are all great things both for the health of our nation and for our nation's economy. So I commend you all here today and just wanted to thank you so much for what you are doing everywhere around the country.

I am thrilled to be able to have Russ Libby here since we are both from the State of Maine. I just want to emphasize again one of the reasons I have been focusing on some of this legislation is not just because of my own personal experience but also in our state when Russell said that four percent of the farmers now have organic markets, 20 percent of our dairy farmers. This is such a huge reversal over the last 20 years when all we saw were dairy farmers closing down their businesses, local farmers going out of business, and what happened to our small local economies going in the same direction. So we are just thrilled to see some growth in our rural economy and some new opportunities for us and again to encourage people to have healthy food habits.

I already mentioned earlier in my statement, the numbers are out there about these new markets and I guess I am going to ask you specifically, Russell, can you talk a little bit about some of the barriers that are out there to farmers? We hear a lot whether it is aggregation or distribution, some of the things that are available in other places we don't have in regions like New England. And also how do you evaluate what we are doing on promoting farmers markets and other ways for people to buy more locally and buy direct-retail to give more money to the farms? So just feel free to answer those.

Mr. LIBBY. Well, most of our farmers start as direct markets. Many of them are beginning farmers. They work their way up. And very quickly they realize that a direct market by itself isn't sufficient and they are working their way into wholesale markets. And you very quickly find that scale becomes an issue, that hitting a large wholesale market on a continuous basis is challenging for individual farmers. And we basically started recreating a distribution system with multiple wholesalers aggregating product and moving it into places that farmers aren't going to get on an everyday basis.

I think the real issue is the one that the panelists from California and Florida have already met that at some point you need to aggregate volume to supply large volume markets, and in New England that is just beginning. We are missing that aggregation stage for many products and that is going to be critical if we are going to access larger markets with New England produce. It is happening. The biggest barriers are really access to capital. If somebody has an idea, there is no clear pipeline for funding, processing, or aggregation systems once you move beyond individual farms.

Ms. PINGREE. Great, thank you.

Ms. Schacht, do you want to answer that? I know you clearly also have a local market and I appreciate your testimony in that regard as well.

Ms. SCHACHT. Thank you. Actually, in my opinion, I don't think the barriers are quite as significant as people make out to. We started with three crops on 11 acres and we are now about 20 different crops on 60 acres so we have been able to grow our market ourselves. I mentioned that we also wholesale to some distributors. It is up to the producer to decide what scale and level they want to be at and how they want to work that and then to go after the tools they need for doing so. And the opportunities in our country is there for that.

The aggregation is if you want to hit the box stores or you want to hit the very, very large outlets, and that is a challenge in that it will take innovation or it will take the efforts of those involved to really put together the program they want. I would rather see again the funds and the priorities of the farm bill be on the research side of it, that we be given the kind of science-based background on the issues that we are having to address as opposed to getting involved in the channels that we as producers need to work to develop ourselves.

Ms. PINGREE. Great, thank you.

I have about 15 seconds. Again, I appreciate all of your testimony. I represent organic, sustainable, and conventional growers in my state and I am anxious to see people eat more fresh food.

Russell, can you say 5 seconds about the organic crop insurance issues just briefly? You know, one of the challenges is organic growers have to pay a premium and we are just trying to figure out ways to make sure everybody has access to crop insurance that works for them. And I am out of time but if you can give 2 seconds, I bet the chair will allow it.

The CHAIRWOMAN. More than 2 seconds, I want to hear your answer.

Mr. LIBBY. Well, the critical issue for not just organic farmers but organic farmers in particular is that the crop insurance program as it is structured now is really not very favorable to diversified farms. So you have a diversification issue and an ability to prove your base, your yields, which gets more complex the more diverse your farm is. And for organic farms in particular it has been challenging for USDA to find ways to recognize organic price premiums because there is not continuing ongoing information available on what those premiums are. So individual farms have their history. MOFGA has been doing a price survey for about a decade so we have some state-level information but there is really no good national price information that lets USDA assess how much of an additional surcharge if any they need to charge for an organic crop insurance package.

Ms. PINGREE. Thank you.

Thank you for the additional time. Thank you, Madam Chair.

Mr. JARRARD. Madam Chair, just a minute, if I might just add——

The CHAIRWOMAN. Please do.

Mr. JARRARD.—and I won't take too much time, but the crop insurance topic is very important to us in California, Arizona where a lot of the produce is grown. We don't want any type of programs that would be in any shape or form a subsidy across the produce industry. So we are very adamant that there are no crop insurance products that are built either third-party or internally through the government forces that are going to corrupt the market forces for competitive pricing.

The CHAIRWOMAN. Thank you.

Now, I would like to ask Mr. Southerland if he has any questions. He is not here. I am sorry, Mr. Crawford. I apologize. I looked right at you. I mean you are next, Mr. Crawford.

Mr. Crawford, would you like to have any questions?

Mr. CRAWFORD. Sure, thank you, Madam Chair. I appreciate the opportunity.

I understand the importance of export programs such as Technical Assistance for Specialty Crops, market access programs, so in general anyone that wants to comment, do you feel these programs are sufficient to secure the kind of access around the world that you need to maintain a vibrant industry? Anybody want to take that one?

Mr. RICHEY. I will take a shot at it, Congressman.

The TASC grant program has been very beneficial for us and when we ran into the brick wall in Europe, we had to very quickly move to get some research to pursue whether or not fruit was a vector for spreading this disease. And we were able to do so by accessing TASC grants. And they were very, very helpful. Without them, we probably would not be anywhere near down the road towards trying to come to a conclusion of this barrier that the Europeans have put before us. So it was very, very beneficial and very, very helpful.

Mr. CRAWFORD. Okay. In your view was there anything else that could be done to expand market opportunities?

Mr. RICHEY. The market access issue in our industry has been probably paramount because we were initially denied access to our own country. So just additional levels of funding to take on the research challenges that we have as our borders have become more porous and we have these invasive pests and diseases that were nonexistent 15 years ago. The need for additional research dollars so that we can take on these issues as we face them would certainly be beneficial.

Mr. CRAWFORD. Excellent. Okay. On that note, I want to direct a question to Mr. Lee. The Pest and Disease Program was designed to help different states and regions of the country deal with their own unique pest and disease pressures. How is APHIS working with the various stakeholders to ensure that we don't have a one-size-fits-all program in the nursery industry?

Mr. LEE. What we have developed, there is a group that has been pulled together by USDA APHIS. It is called SAPP, the Systems

Approach Program Partnership. And in that the very beginning premise that we came around to were, number one, it had to be scalable. Number two, it needed to be risk-based. In other words, there are parts of the country either by geography or by basically the pest pressure or the products they grow, the destination markets, all those things are factors that come into play when you start saying what does a program need to look like? So what we have been working towards is putting together more or less a toolbox that you can pull pieces out of and apply the ones that apply to you to reach the pest mitigation standards you require. That is a lot said to try to pull something together like that, but the programs we have looked at so far have far more commonalities than they do differences.

Mr. CRAWFORD. Excellent. Okay.

Mr. Libby, I have a question for you. We are in the process right now in the commodity title of dealing with potentially seeing the direct payment to producers of the traditional program crops, seeing that direct payment eliminated. What is your opinion? Do you think a direct entitlement payment to cover organic certification costs should be maintained?

Mr. LIBBY. Yes, I do and I stated that in my testimony. There are three reasons that is important. One is that the certification fees that are charged are based on gross income but of course farmers are not grossing their income. Many of them are barely netting. There are different classes of farmers for whom cost-share is probably less relevant, but it is hard to sort what those are in Federal legislation. So do you pick successful farmers and they are out and unsuccessful farmers are in?

The cost-share program in this case is different from the Direct Payment Program because you have to be certified if you want to use the word *organic*. The Federal Government has taken control of that word. You have no choice and so you are being asked to be certified if you are selling more than $5,000 worth of product a year whether your markets require it or not. So in essence, those requirements are forcing people to be certified and the cost-share is a partial reimbursement of some of those costs.

Mr. CRAWFORD. Okay. So basically that sounds like the heart of your argument there is that because you are forced to be certified, there should be some sort of mechanism in place to help offset the cost associated with that?

Mr. LIBBY. Yes, I see it more as comparable to participation in NRCS programs than I do the direct payments. It is capped. It is limited at $750 per year per farm. It is capped at 75 percent so if your fee is lower, it is a lower fee. And it has no relationship to the number of acres that you are producing.

Mr. CRAWFORD. Thank you, sir.

I yield back.

The CHAIRWOMAN. Thank you.

Mr. McGovern?

Mr. MCGOVERN. Well, I thank you very much, Madam Chair. And I want to thank Mr. Sablan for giving me this opportunity to go first.

First of all, thank you all for your testimony and I appreciate it for a number of reasons. One reason why I am glad you are here is I heard over and over the importance of some of these nutrition programs and some of these programs like Fresh Fruits and Vegetable Program, the Farm-to-School Program was mentioned, the Specialty Crop Block Grant Programs, the benefits that they bring to helping get healthy food to people in need and kids in schools. Mr. Jarrard, you talked about Section 32 in the DOD Fresh Program. And unless I missed this, nobody here is advocating that we cut any of these programs, are you?

Mr. JARRARD. No.

Mr. MCGOVERN. I mean you are talking about the benefits of these programs and not about the need to cut these programs and you have made the case why these programs are important. One is because if you cut back on some of these programs, there are costs associated with that, cost to farmers, cost to citizens in the community, a less healthy community. You will have more avoidable healthcare costs that we will have to take care of. Kids don't learn as well in school without a nutritious meal. Productivity in the workplace suffers. You know, there are costs to not supporting the programs that you have just talked about. Anybody disagree with me on that?

Mr. JARRARD. I certainly don't disagree. You are dead on correct.

Mr. MCGOVERN. But here is kind of the irony and that is we are talking about building an infrastructure to provide healthier foods for our people and yet a couple of weeks ago the full Committee here cut $33 billion out of the SNAP program, which is the very program that I think would enable people to be able to take advantage of some of these foods.

Ms. SCHACHT. I think, too, the thing you have to recognize though that there are some distinctions in the SNAP program, and the SNAP program is more universal dollars to be spent at the recipient's discretion. But there is work being done to better educate them in order to use those benefits in a more wise way.

Mr. MCGOVERN. We wouldn't want to cut any programs that help promote nutrition education?

Ms. SCHACHT. And I am probably a little bit of an anomaly on the panel. I tend to, from a personal perspective, want to see cuts to occur and occur across the board, and if you need to make cuts, then we certainly recognize that we may have to be part of that where a portion of what was in the 2008 bill cannot be provided again. We are just concerned that if you are going to eliminate programs altogether that have had benefits, that they not be eliminated.

Mr. MCGOVERN. But you talked about the importance of local farmers markets being able to take advantage of EBT technology and you mentioned there were some issues with farmers markets being able to utilize that. Am I correct?

Ms. SCHACHT. Well, I think it was both of us but I am still not sure if you really asked a direct question about it.

Mr. MCGOVERN. I guess what I am just trying to point out here is kind of the irony of what we are doing here today. We are talking on one hand about the importance of building this infrastructure to support local farmers, to provide healthier foods to our citizens of all incomes, and at the same time we are moving to make significant cutbacks: $33 billion was what we voted on a few weeks ago—that is huge—which would make it more difficult for families to be able to utilize that benefit at farmers markets. And all I am simply saying is that none of you are advocating cutting back on any of the programs that you have been talking about here today, and we are going to take up a reconciliation measure in the House Thursday which exempts the Pentagon budget from any cuts. And I just think there is a certain irony to all of this.

Mr. Jarrard, do you want to comment?

Mr. JARRARD. Go ahead, Dan. I will comment.

Mr. RICHEY. Thank you, Congressman. I think one of the items that is worthy of recognition here is the small degree relatively in a sense that specialty crops are a part of the farm bill. And we have just recently over the last two farm bills begun to build a little traction and be able to get what we believe is recognition. What we are talking about today is a smaller portion. We are not a subsidized—there is no set aside programs as Mike mentioned earlier. There is no overarching sustainable benefits that we receive in the specialty crop alliance here, and we are looking for support of these programs, which are a smaller part of the farm bill and are just now tracking up that are more reflective of what we are talking about relative to that as opposed to the overall——

Mr. MCGOVERN. Yes, I mean I support all that you have talked about here today. I am a strong supporter. You know, as we discuss this farm bill, we are talking about the importance of the programs that you provide and this Committee has already taken action to cut back on SNAP by $33 billion. It seems to me the good work that you are doing, we want more people to take advantage of it.

Mr. JARRARD. We do. And if I might add, and we don't want the Fresh Fruit and Vegetable Program to get caught up in the conversation you are going to have later today about nutrition because it is very important to recognize that it is a distinct program focused on the underprivileged children in school to promote healthier eating habits by providing them healthy fresh fruits and vegetables and nuts.

And actually, if you need some additional ammunition to support that, when you look at the 2011 study that was done to follow up to find out the benefits of that program, it did actually increase consumption among those children of fresh fruits and vegetables by 15 percent. So it is making a difference. It is $150 million. It is $1 to $2 a week per child, which is a pittance.

Mr. MCGOVERN. And I strongly support it. I also want to make sure that their parents can be able to take advantage of farmers markets and be able to have access to fresh fruits and vegetables, too.

The CHAIRWOMAN. Thank you. And I look forward to a lively discussion when we go to the next panel.

Ms. Schacht, I would like to ask you why are the research dollars so important or valuable to producer growers?

Ms. SCHACHT. I think one of the things that has to be recognized is, again, about the diversity of the type of crops that are produced and that the scales of that is at significantly small numbers at times, but yet very high economic dollars involved. They can generate and they can offer, again, quite a significant improvement in dietary needs in that producers are willing to strive to find new technologies and new methods, a variety of tools that they can use. But it is very difficult to do that on the scale where they really get a comprehensive picture and really the caliber of end results that give them the information they need. So if we do it through something like the Specialty Crop Research Initiative where the land-grant colleges or other research entities have that additional dollars, then we see the kind of research we need in order to implement, to have those new tools to implement on our farms.

The CHAIRWOMAN. Does anybody else want to add to that? Mr. Libby?

Mr. LIBBY. The Specialty Crop Block Grants are really the place that fills in holes. As our land-grant institutions have been under financial pressure, as our state agencies have been under financial pressure, the Specialty Crop Block Grant Program has become the place where people can go quickly to solve problems that they otherwise don't have access to funds. And it has become a way to jump outside the day-to-day and jump into the possibilities in a way that I don't think there are any other pools of money there. So that cost sharing out to the states is a very effective way to make things happen.

The CHAIRWOMAN. Mr. Jarrard, do you want to add anything?

Mr. JARRARD. Just to reinforce his point about the block grants. Since the 2008 Farm Bill, 180 food safety programs have been implemented with that money across 39 states. I think we are all aware of the food safety instances that have broken out over the course of the last 7 years around produce. There has been a lot of benefit centered around food safety as a result of this block grant money being tailored and allowed the states to choose where to allocate that money to what is most important. You know, again, so it is very, very effective the block grant money.

The CHAIRWOMAN. Can you add how the Specialty Crop Block Grant Program has been utilized in your specific state, Mr. Jarrard?

Mr. JARRARD. Yes, so in California green onions are a commodity that are vulnerable to *Listeria*, for example, because they are grown in the ground and surrounded by a lot of dirt obviously. And so there was a grant made by the State of California through the Federal State Block Grant funds that allowed us to focus on how we could develop a better food safety program just around the commodity of green onions, which is very important to recognize because not all commodities are treated equally, nor are all geographies. So a lot of times you have to tailor a specific food safety program around a product or around a particular locale.

So the Green Onion Program allowed us to educate the growers, as well as the processors of green onions and the handlers on new food safety practices. And quite honestly, in the last 4 years, I can't recall an incident related to green onions when before that I actually had our company quit selling green onions for that very reason. I didn't want to be vulnerable to one commodity until those food safety programs were put in place. And now they are and now we are back to selling green onions.

The CHAIRWOMAN. Thank you. Mr. Lee, the pest and disease program was designed to help different states and regions of the country deal with their own unique pest and disease pressures. How is

APHIS working with various stakeholders to ensure that we do not have a one-size-fits-all program for the nursery industry?

Mr. LEE. And this question might have been asked already, but we have worked with the USDA APHIS really since about 2009 both in developing the framework of the expectations of the sections 10201, 10202 funding for our industry. It also involved a lot of collateral berries, grapes, those kind of things. From that, we have continued to work together looking at what the program should look like, what the National Clean Plant Network would look like. We have looked at all those things and have been able to take some existing programs, make those more scalable to what the individual sites or areas or the risk factors are in that particular area based even upon the product they supply where they ship it to you. And so we have been walking down that path. And much of the section 10201 funding are running parallel lines to supply the information we need to be able to make those science-based decisions.

The CHAIRWOMAN. Thank you. I would like to recognize the Ranking Member of this Committee, Mr. Baca. And I know that you probably had an opening statement, and if you would like to briefly in 30 seconds summarize it for the record, that would be fine. And otherwise, I don't know how your other two Members feel if I jump in and let you ask some questions. Are you all fine with that?

Mr. BACA. I would like to go in the order.

The CHAIRWOMAN. All right.

Mr. BACA. I think Mr. Sablan has been sitting here for some time and we should go to him before I do. But I do appreciate that very much. Thank you, Madam Chair.

The CHAIRWOMAN. All right. Mr. Sablan?

Mr. SABLAN. Yes, I thank you, Madam Chair and Mr. Baca. I am going to make this short because I am very excited about the next panel actually.

But Mr. Jarrard, much if not most of the product we get from the states comes from your area, products and those kind of vegetables. But in your testimony one thing that pops up is you mentioned the pressure the agriculture industry is under to secure a legal workforce. So can you give how this agriculture industry in California would be impacted say if E-Verify legislation will be enacted on a national level, please?

Mr. JARRARD. So if I understand your question, you are focusing on labor, is that correct?

Mr. SABLAN. Yes. Yes. Because everyone is talking about the food but we need farmers. We need people to produce the food.

Mr. JARRARD. Yes. So definitely that is outside probably the bounds of today's conversation but one that we are very passionate about. And we are actually going to be here in D.C. next week with meeting of consortium of different industries to help create momentum for developing a Guest Worker Program. As you are very familiar most likely that 70 percent of the workers within agriculture are not well documented and it puts our companies at very much a high risk. And this extends beyond just agriculture; it is true for hospitality, it is true for construction, it is true for every restaurant that you walk into across the United States. And I know that is a bold statement but it is pretty fair. It puts every business at risk so we need to address the immigration status of a lot of the individuals in this country and provide them a legal means to be working in this country.

Mr. SABLAN. Like how?

Mr. JARRARD. Excuse me? Guest Worker Program.

Mr. SABLAN. Yes. Any suggestions on how we resolve making sure that you are not hiring people who are not—and I like your words, not well documented.

Mr. JARRARD. Yes, and I apologize. I had a hard time understanding your questions. Can I ask you to repeat it?

Mr. SABLAN. Yes, what do you suggest we do—when you discuss with the different groups—to address the problems that you may have with not well documented workers?

Mr. JARRARD. Well, first, I keep mentioning Guest Worker Program, right, and so that is maybe a bit of a blanket statement. But we need a means for identifying who is in the country illegally, give them the opportunity to legally apply for work in the United States, and then gauge whether they extend their stay here or not or renew that stay.

Mr. SABLAN. Because you need these workers.

Mr. JARRARD. Oh, yes.

Mr. SABLAN. Are you with me?

Mr. JARRARD. Yes.

Mr. SABLAN. I mean probably most of you need these workers.

Mr. JARRARD. Right. The myth is that most Americans will do these jobs and the reality is that they won't.

Mr. SABLAN. Yes. And I know this is also a matter that maybe is outside of our Committee's jurisdiction but I am going to get in trouble with this, but do you believe that CBP, Customs and Border Protection, is devoting adequate resources to help mitigate the introduction of new pests and disease through U.S. ports?

Mr. JARRARD. I am going to defer that question to either Dan——

Mr. SABLAN. Maybe Mr. Richey?

Mr. JARRARD. Yes.

Mr. RICHEY. I think I understood the question relative to invasive pests, are we doing an adequate job? I think after 9/11 when we transferred the responsibility of the agricultural stations at the airports and seaports to Homeland Security, at least in our industry, we can tie a direct correlation in an uptick of invasive pests and diseases. We have had an ongoing wish to see that back to the Department of Agriculture for a more enhanced look at those invasive pests and diseases. Homeland Security obviously has a priority and rightly so and it is not necessarily agriculture products coming into the country.

So we have seen a downturn in what we believe is the interdictions. Some of the block grants have allowed us to ramp that up in our own states, so we have used that money to try to complement the efforts from the Federal Government. Again, we are probably the poster child. We had no canker. Well, we did have canker. That would not be a correct statement. We had no black spot, we had no greening. All these things have come into our country through the porous borders that we now have and have not been properly mitigated and captured at the border.

Mr. SABLAN. Yes, my time is up. Thank you, Madam Chair.

The CHAIRWOMAN. Thank you so much.

Ms. Pingree, do you have any more questions?

Ms. PINGREE. Does Mr. Baca have questions?

The CHAIRWOMAN. He wanted to go in order.

Mr. BACA. She asked questions previously?

The CHAIRWOMAN. She did. Well, then, okay. I misunderstood you. Then the Ranking Member, would you like to make a statement, ask questions?

Mr. BACA. Well, thank you. I will submit my statement for the record without having to go in there, but I appreciate that, Madam Chair.

[The prepared statement of Mr. Baca is located on p. 1945.]

Mr. BACA. I would like to ask some questions.

Mr. Jarrard, food safety is such an important concern to the American public. Can you describe the steps that are taken to ensure that all fruits and vegetables—regardless of where they are grown—meet the very best food safety standards? And I am very much concerned with that because I want to make sure that American farmers are the first and the best at providing safest fresh fruits and vegetables in the world.

Mr. JARRARD. Well, thank you for the question. It is a very important one to answer. One of the best models that I can cite is after the 2006 spinach *E. coli* incident, the industry within California and Arizona reacted very quickly by creating and implementing the Leafy Greens Marketing Agreement by which all members in California and Arizona are bound to abide by. And they were tailored specifically to leafy greens, leafy greens being your romaine, green, red leaf, iceberg-type lettuces and spring mixes. And within 2 months we had those standards developed and being incorporated into the practices of our growers and our handlers. So again that is a very important model to cite. We are in the process of trying to make that a national requirement, but that obviously requires the voluntary signup of a lot of the other states because it is an agreement as opposed to an order.

In terms of other measures that we are taking, I will go back and cite the block grant programs. And the fact that there have been 180 of these food safety programs developed across 39 states since 2008 is testament to what not only those funds can do but how important it resonates with the growers across the United States. Has it been competitive and developed a sense of assurance among the countries that we export to? I can say that definitely in the case of Canada where we saw a lot of product. They will not accept any type of leafy greens unless it is a Leafy Green Marketing Certified Grower.

Mr. BACA. Yes. Well, we are in compliance. I appreciate what our American farmers are doing. I just want to make sure that when we look at some of the produce that is being imported to our markets we make sure of its safety. The consumer who is buying that product then has to know the difference between an imported product and an American product, whether it is fresh fruit, vegetables, or others. And that needs to be done because there has to be clarification. And maybe I am biased in saying, hey, buy only American products, buy our American farmer's product *versus* something that comes from another country.

I am also concerned with the cost effectiveness of what we are doing, when it comes to implementing our safety requirements. And what is it costing us when we find out that a product from another country is not safe? Is there a cost to this and is it cost effective?

Mr. JARRARD. Yes, honestly I can't speak to the programs outside of the United States, the food safety programs. Food safety resonates very loudly with our customers and our customers purchase both from the United States as well as internationally. And there are a number of third-party food safety audits that everybody who supplies them is required to pass. There are global food safety initiative standards that are being developed and implemented across the spectrum of all produce, including internationally. Is it an even playing field today? No, it is not. It is not an even playing field within the United States but we are moving in that direction.

Mr. BACA. Are there any policy changes that need to be done in the 2012 Farm Bill to ensure the highest food safety standard possible?

Mr. JARRARD. I can't speak to the farm bill. I may defer that to one of my panelists here in a moment, but I will mention something that is a bit onerous to us and that is the Tester amendment that was made a part of the Food Safety Modernization Act that excludes growers of less than $500,000 in revenue of having to adhere to those food safety measures. With that I will pass it on to one of the other panelists.

Mr. BACA. Okay. I know that my time has run out but I would like to ask Mr. Lee a question if you don't mind, Madam Chair. And only because I have been wearing this band that I have on me, One Family, One Alabama. I actually went there when we were talking about the immigration problem, and I would like to ask Mr. Lee. You mentioned the struggle of specialty crops producers on labor availability—and I know Mr. Sablan asked the question—how would you describe the labor situation in Georgia? What impact has H.B. 87 had on the agricultural labor in Georgia?

Mr. LEE. Yes, immigration is probably the largest issue we have. When the bill originally passed, it took effect in July of last year for certain sized companies. But the fear that was out in the workplace of racial profiling was enormous.

Mr. BACA. Oh, yes.

Mr. LEE. All the training the House Bill required to prevent racial profiling has never happened. Your local law enforcement people do not even know where to go to get that training. So that has not been made available. Initially, as soon as the bill passed and took effect in July of last year, I have lost roughly ten percent of the workforce. Now, I don't believe they were all illegal; they may have had members of their family that was potentially illegal, but that was a big drain. I can tell you the economy has been tough on our industry now just like everyone else's industry. Typically, we would be running a crew in the Georgia location alone of somewhere around 550 people, which requires us to hire 130 people in like the February and March time frame. That would not happen today. So if the economy miraculously turned around tonight, our production levels would probably remain constant because there is not the workforce to do the job.

Mr. BACA. Thank you, Madam Chair.

The CHAIRWOMAN. Okay. In the interest of time, I am going to ask our Members to keep their questions for 5 minutes and we are going to continue this round and then go to the next panel.

Ms. Pingree?

Ms. PINGREE. Well, thank you very much, Madam Chair.

It is great to have a chance to chat with all of you a little bit again. I am just going to pick up on at least one question that we really haven't talked at all about before and it is great the dialogue and the information you all have been providing with us this morning.

So Russell, I want to know a little bit more about the beginning farmer programs and the impact they have. You know, one of the concerns, we have talked a little bit about the workforce and one of the challenges in the United States is the average age of the farmer has been going up and the personnel to do the farming is a challenge. And one of the great things we have experienced in Maine is the average age of the farmer is actually going down and we are seeing a certain amount of increased interest in young people getting engaged in farming. And there are a lot of barriers, as we all know, whether it is access to capital or many of the regulatory questions people have talked about today. I mean it is not easy. Even if you are taking over a family farm it is not always easy to hang onto it and continue doing it.

But can you just talk briefly about some of the beginning farmer programs and how they are working? And I know it is one of the things that we do look at in the farm bill.

Mr. LIBBY. Well, Congresswoman Pingree, I know you have experience here because you started one of our programs a few years ago.

Ms. PINGREE. And I didn't bring this up for that reason, okay?

Mr. LIBBY. But the BFRDP program has been very helpful to farmers across the country to people who are trying to train new farmers. So we have been running an apprenticeship program for many years matching people who were interested in farming with farmers who were willing to teach. We used to have 50 people a year in that program; now, we have closer to 200 people a year. And we realize that they are not ready to farm after they have done 1 or 2 summers of work on a farm. They have the bug; they are not ready. And we tried to find a bridge between them, and we started a 2 year program to provide intensive education, mentorship, and business planning training to prospective new farmers.

As I mentioned earlier, we have had 120 people go through that program in the last 12 years; seven out of eight of them are still farming. And we funded out of our own funds originally, we used foundation funds to grow it a little bit, and then we just received a BFRDP grant to carry us for the next 3 years. We are bringing in 25 new people per year in a 2 year cycle. It is not a huge number but it is a really successful model because what we are finding is these are successful young farmers.

And I will just use one example of somebody who just stepped off our board. Year 1 had worked on a farm in New York, came back to Maine ready to farm, leased land and now in year 4 is grossing a little over $200,000 per year, four full-time employees, six seasonal employees. Another person started with no farming experience, farmed on our education center for 2 years, and now year-round eight greenhouses, ten employees. This is how we are creating jobs on the ground by giving people a little bit of an educational start and turning them into people who are ready to run successful farm businesses.

So I would really encourage the Committee to support BFRDP funding. I know it is a challenge finding funding right now but if we are thinking about who is going to grow food in the future and we want independent farmers, somewhere they need to be trained.

Ms. PINGREE. Thanks. I have about a minute and a half. And just to clarify, I also have the hospitality industry in my district so I am very aware of many of the issues that have been brought up about the difficulty of accessing workers.

So beyond just the immigration issues, I am wondering if anybody else has either had successes or knows of issues around how we make it possible for more people to be on a farm, to be an entrepreneurial farmer, the farmer themselves. Anybody want to make a comment on this? And if you don't have experience, you don't have to.

Great. I will just yield back my time. I know we are anxious to get to the next panel. And I appreciate again everybody's testimony today. It has been really insightful and you come a long way and you are busy people and I thank you very much for being here.

The CHAIRWOMAN. Thank you. And I am going to pass on my opportunity for questions and allow Mr. McGovern 5 minutes.

Mr. MCGOVERN. I will pass on my opportunity to ask questions. Again, I just thank the panel for taking the time to be here. This has been very informative. Thank you.

The CHAIRWOMAN. You are welcome. And Mr. Sablan, I know you have to leave to go somewhere else, but would you like to ask questions, make a statement at this point?

Mr. SABLAN. Yes, but it is for the next panel, Madam Chair, if I may.

The CHAIRWOMAN. So you wanted to make a statement before the next panel because you have to leave? Is that what——

Mr. SABLAN. With the next panel, yes.

The CHAIRWOMAN. I will yield the opportunity for you to do that.

Mr. SABLAN. Oh, thank you very much.

The CHAIRWOMAN. I am pretty easygoing. Can you tell?

I would like to thank all of you. We could really talk to you all day. You have shown us so many insights into the industry, and I just want to say one thing as we go to the next panel on nutrition. Nutrition is important in each and every aspect of our lives, and Mr. Libby brought to my attention that the first female Olympian for the marathon, Joan Benoit Samuelson, is a personal friend of his and she is a person that I admire. And I know that the reason why she runs so well is because she has a very well balanced diet and is probably very organically fed. So I just had to make a personal comment on that and I want to thank all of you.

I would like to call the second portion of this to order and to recognize the second panel.

We have Mr. Rodney Bivens, Founder and Executive Director of the Regional Food Bank of Oklahoma, Oklahoma City, Oklahoma. We have Dr. Ron Haskins, Senior Fellow, Economic Studies Program of the Brookings Institute in Washington, D.C. We have Ms. Stacy Dean, Vice President for Food Assistance Policy in the Center on Budget and Policy Priorities in Washington, D.C. And we have Mr. Phil Blalock, Executive Director, National Association of Farmers Market Nutrition Programs in Alexandria, Virginia.

Welcome to all of you and we will begin with Mr. Bivens.

STATEMENT OF RODNEY W. BIVENS, FOUNDER AND EXECUTIVE DIRECTOR, REGIONAL FOOD BANK OF OKLAHOMA, OKLAHOMA CITY, OK

Mr. BIVENS. Good morning, Madam Chair and Members of the Subcommittee. My name is Rodney Bivens and I am the Executive Director of the Regional Food Bank of Oklahoma. I am honored to be representing food banks and partner agencies involving in fighting hunger and feeding hope. There are 202 Feeding America food banks covering every county in the United States serving more than 61,000 pantries, shelters, soup kitchens, and other organizations providing food to 37 million Americans, one in eight people. I want to tell you about the Regional Food Bank of Oklahoma, but more importantly, about the silent crisis that exists in this country—hunger.

The Regional Food Bank of Oklahoma is the largest private hunger relief charity in the state. Last year, we distributed more than 46 million pounds of food to more than 900 charities, feeding programs, and schools throughout 53 counties in our service area. Seventy percent of those were faith-based. Over 38,000 volunteers donated 120,000 hours last year of service saving us $2 million enabling us to maintain administrative and fundraising costs of less than four percent.

The food bank system is under tremendous stress with the drop in the Emergency Food Assistance Program, or TEFAP, which supplied 17 percent of our most desired food last year. Unfortunately, TEFAP declined by 51 percent this year because strong stable commodity prices led to fewer bonus purchases. Without more Federal support for TEFAP, the food bank distribution system throughout this country is at risk of falling further behind in meeting the needs of those who struggle to put food on their table.

The reality is our operational costs including food and fuel continue to increase. If not for SNAP benefits providing the safety net during these difficult times, the food bank system might have collapsed under sheer volume of people needing help. So many people we serve have run out of unemployment benefits, exhausted their savings, and are chronically underemployed and rely on SNAP and our pantries to feed their families. Even in Oklahoma where the unemployment rate is relatively low, many are turning to food banks or SNAP or both for the first time in their life.

I know many people when they think of a hungry person, they think of a homeless person, a panhandler standing on the street corner. But the truth is the majority of people we serve are children, seniors living on fixed income, the working poor living from one paycheck to the next.

The Regional Food Bank provides enough food each week to feed more than 90,000 people and nearly ½ of those are children. Children do not ask to be hungry or live in poverty. It is due to circumstances beyond their control. Our Food for Kids Backpack Program is providing kid-friendly food every weekend for more than 12,000 chronically hungry children and 478 elementary schools bridging the gap between school lunch on Friday and breakfast on Monday. This simple act of giving a child food is changing lives. As one principal stated, "when hunger ends, learning begins."

At Public City West High School, 19 out of 53 football players had broken bones because they were malnourished from consistent lack of food. Normally, a teen has two to three. One of the players was so desperate for food he contemplated robbing a 7-Eleven store not for money or cigarettes but for food. He said it was almost worth going to jail in order to eat.

The food bank established a School Pantry Program at 43 middle and high schools in order to feed more than 700 chronically hungry students. It is unthinkable to me and should be to all of us that children are going hungry when we have such abundance of food around us. At one school a mom tearfully thanked the teacher and told her that she was so humbled and embarrassed accepting food from the school pantry but they just couldn't live on the full-time minimum wage income and SNAP benefits. They bring in $1,600 a month, $19,200 a year for a family of five. That is $14,300 less than the poverty level. And there are thousands just like them.

At the other end of the spectrum, the food bank also provides food to more than 4,800 seniors through CSFP, Mobile Senior Pantries and home delivery. Seniors who have sacrificed so much for this country should not have to choose between getting a prescription filled and having food to eat.

Even in difficult times our great country faces, we cannot afford to balance the budget on the backs of those who have so little. Investing in fighting hunger isn't just the right thing to do to help our struggling neighbors; it can help reduce long-term costs associated with hunger and poor nutrition. This is why we ask you to join us in promoting the vital Federal nutrition programs through protecting SNAP from cuts and harmful policy changes. Children, the elderly, and those living with disabilities make up 84 percent of SNAP recipients.

Further, we ask that you would increase funding for mandatory TEFAP and clarify the USDA's authority to make bonus purchases when need for food assistance is high, not only when commodity prices are low.

Finally, we ask that you make CSFP a seniors-only program so we may continue our commitment to ensure that no senior citizen has to decide between proper medical care and nutrition.

I thank you for your time.

[The prepared statement of Mr. Bivens follows:]

PREPARED STATEMENT OF RODNEY W. BIVENS, FOUNDER AND EXECUTIVE DIRECTOR, REGIONAL FOOD BANK OF OKLAHOMA, OKLAHOMA CITY, OK

May 8, 2012

RODNEY BIVENS,
Founder and Executive Director,
Regional Food Bank of Oklahoma

Subcommittee on Nutrition and Horticulture,
House Committee on Agriculture,
Washington, D.C.

Dear Madam Chair and Members of the Subcommittee:

On behalf of the Regional Food Bank and Oklahoma's vast network of partners involved in the fight against hunger, we thank you for the opportunity to provide testimony during this crucial period concerning food insecurity throughout Oklahoma and across our nation. The Regional Food Bank is the largest private hunger-relief organization in our state, serving 53 counties in central and western Oklahoma, and distributing over 46.2 million pounds of food last year through a network of more than 900 partner agencies and schools. We are also a member of Feeding America, a national network of over 200 food banks working in partnership with 61,000 local agencies providing emergency assistance to 37 million people each year, including 14 million children and three million seniors.

The Regional Food Bank currently distributes enough food to feed more than 90,000 Oklahomans every week, which is made possible through generous individual donations, strong corporate partnerships, and USDA Commodities that provide a vital portion of our supply of nutritious produce. Our food bank relies on the tremendous support of community volunteers, who last year donated over 120,000 hours to sort and pack food, saving us more than $2 million in labor costs. We have a strong commitment to operating efficiently, which helps keep our administrative costs below four percent. Ninety-six cents out of every dollar received goes directly to Oklahomans who need it most.

In addition to our distribution to emergency food operations, the Regional Food Bank also operates targeted programs to combat childhood and senior hunger where it exists in our communities. Without proper nutrition, some children are forced to skip school; some have difficulties learning and paying attention in class; and some will drop out of school and be subject to crime, drugs, and other hardships that often exist for those without a strong educational backing. Because we believe it is our moral responsibility to ensure that no child is forced to go to school hungry, our Food for Kids Backpack Program is providing nutritious, yet shelf-stable, kid-friendly food every weekend to more than 12,300 chronically hungry children in 478 elementary schools throughout the 53 counties we serve. Further, we believe that childhood hunger does not end at the elementary level. Therefore, in 2010 we established 43 middle and high school food pantries that are now serving more than 700 adolescents throughout our service area.

At the other end of the spectrum, the Regional Food Bank believes that seniors who have sacrificed tremendously for our country should not have to choose between getting a prescription filled and having enough food to eat. In response, we provide nutrition assistance to more than 4,800 seniors through our Mobile Pantry Program, the Commodity Supplemental Food Program (CSFP), and home deliveries. We are also currently in the process of expanding our outreach to seniors through the development of additional fresh food mobile pantries, which will distribute fresh fruits and vegetables to seniors in low-income sections of our service area, providing them with the much-needed nutritional supplement that they otherwise would be unable to afford or access.

Unfortunately, even with the outpouring of community-based support and continuous operational improvements, we are still struggling to meet the increasing need for emergency nutrition assistance.

Our partner agencies have reported a 30 to 50 percent increase in demand for emergency food assistance in the most recent fiscal year, and a number of agencies have also recently indicated that 25 percent or more of the families they currently serve are first-time clients that have never had to ask for help until now. Not surprisingly, current statistics on poverty and hunger in Oklahoma reflect these conditions.

The U.S. Census Bureau's newly released state-level data from the American Community Survey on Poverty indicates that at least *one out of every six* Oklahomans lives in poverty, which is already set at the low standard of $23,050 annually for a family of four. Oklahoma's poverty rate remains 14th highest among the states and 1.6 percentage points above the nation as a whole.

Unfortunately, Oklahoma's food insecurity rates also mirror current economic hardships. While the USDA's most recent report on Household Food Security in the United States has indicated that food insecurity rates nationwide have remained roughly fixed at around 14.5 percent since 2009—which represents an already high portion of American families who often do not know where their next nutritious meal will come from—Oklahoma's rates continue to rise and remain consistently above the national rate at an average of 16.4 percent. Most alarming is that Oklahoma is now tied with Arkansas as the *number one* population for very low food insecurity; this means that 7.5 percent of Oklahoma's households experience hunger and the physical implications that result from malnutrition on a routine basis.

Despite the reality that our nation's economic crisis continues to be experienced deeply both here in Oklahoma and across our nation, the Regional Food Bank of Oklahoma continues to strive to protect and uplift our most vulnerable citizens. Over the past year, in response to the heightened need for emergency nutrition assistance across our network, we have responded by stretching our resources through our fundraising capacity, our food sourcing, and through maximizing our efficiency standards to achieve a 27 percent increase in distribution from the previous fiscal year. However, we simply cannot maintain this current level of distribution alongside increasing demands for our services with additional cuts to the crucial safety nets that exist in Federal nutrition programs. Hundreds of thousands of Oklahoma's working families, children, seniors, and individuals with disabilities temporarily rely on these programs to ensure that they won't have to worry about malnourishment as another impediment to self-sufficiency in the form of a well-paying job, the pursuit of higher education, affordable healthcare, and other important necessities.

While we understand the tremendous importance in balancing our nation's budget, we are compelled to request that you reject any cuts to Federal nutrition programs. As national unemployment rates continue to hover significantly above pre-recession levels, and food insecurity rates persist in mirroring these conditions, the need for nutrition assistance has never been greater in Oklahoma and across our nation. Any cuts to such vital nutrition assistance will increase hardship within the already struggling population served by the Regional Food Bank of Oklahoma and further inhibit our organization's ability to keep up with the increasing need for supplemental nutrition. Please take a moment to review some of the Federal programs through which we both partner and receive crucial assistance. Without help from these programs, it will not be possible to respond to the overwhelming need we are experiencing:

- **The Emergency Food Assistance Program (TEFAP)** ensures a steady stream of nutritious USDA Commodities for distribution through our nation's charitable food system. The Regional Food Bank of Oklahoma has administered this program since 1996. TEFAP is by far our largest Federal program, in that it provides us 3 to 9 million pounds of food per year, depending on the year. Last year, 17 percent of the 46.2 million pounds of food we distributed through our network of emergency pantries consisted of TEFAP Commodities; unfortunately, TEFAP declined this year by an astounding 51 percent because stable commodity prices led to fewer bonus purchases. While this time last year we received just over 40 truckloads of TEFAP Commodities, now we expect to see only 23 truckloads. The decrease in vital commodities is a key contributor to our warehouse supply being at nearly decade-long record lows, and the populations we serve going without some of the best quality food available from our network. Without more Federal support for TEFAP in the upcoming farm bill, both the Regional Food Bank and the entirety of America's food banking system is at risk of falling behind in meeting the needs of Americans struggling to put food on their tables. Accordingly, we respectfully request that the Committee work to provide as much increased mandatory funding for TEFAP as possible, including language in the farm bill that clarifies USDA's authority to consider the need for increased food assistance when deciding whether to make commodity purchases under the CCC or Section 32.
- **The Supplemental Nutrition Assistance Program (SNAP)** safeguards millions of families against hunger and provides them with the opportunity to afford not only enough food, but nutritious food. Although SNAP has experienced dramatic growth since 2007 due to our nation's highest unemployment rates in nearly 30 years, the program has never been more efficient. SNAP now boasts an all-time program high with an accuracy rate of 96.19 percent, which is markedly higher than many other prominent benefit programs. SNAP is also efficient in that it largely avoids duplicative efforts; the USDA's 2011 analysis of characteristics of SNAP households found that only eight percent of all SNAP households also received Temporary Assistance for Needy Families (TANF) benefits, and that only another four percent received State General Assistance (GA) benefits. Even more exciting is that SNAP benefits generate local economic activity. For every $1 spent in SNAP benefits, $1.73 to $1.79 is generated in local mar-

kets. Though the Regional Food Bank of Oklahoma does not partner directly with SNAP, approximately 37 percent of the people we serve are SNAP recipients requiring additional assistance.

SNAP has had tremendous success in Oklahoma, and allows hundreds of thousands of our citizens to be able to achieve greater financial security and self-sufficiency. Currently, over 600,000 Oklahomans are enrolled in SNAP, of whom more than 270,000 are children. These individuals receive an average amount of just $4.22 per day to help them with their nutritional needs. Much like the majority of working families the Regional Food Bank serves, Oklahoma's SNAP recipients are *not* just looking for a handout—48.6 percent of households receiving SNAP benefits had earned income in 2010, and the average length of participation in SNAP is currently only about 9 months.

Additionally, SNAP has brought significant economic benefits to Oklahoma, in that SNAP dollars are quickly spent in our local markets, whereas many SNAP recipients would otherwise be forced to turn to already overwhelmed emergency food pantries. In 2010, SNAP created $1.5 billion in economic activity for Oklahoma. SNAP sales to more than 2,800 grocery stores and other retail outlets totaled $861 million. Oklahoma's SNAP program is also remarkably efficient. Oklahoma's most recent SNAP accuracy rates mirror national trends with a record-high of 95.78 percent, of which nearly ¼ of all errors result from underpayments. Also notable is that record-high SNAP accuracy rates are also coming at a time when Oklahoma has eliminated the resource asset test; the elimination of the asset test has not only saved considerable time and resources of both the Department of Human Services and qualifying families, but more importantly, has allowed approved families to be able to actually save beyond the $2,000 or $3,250 maximum resource limits to go toward a down payment on a house, to buy a reliable car, to save for a college education, and other savings necessities characteristic of the socially-mobile and financially-secure. In all, the SNAP program of today, both in Oklahoma and across the U.S., is allowing families to move beyond the stigma of low-income and towards self-sufficiency.

- **The Commodity Supplemental Food Program (CSFP)** provides a nutritious monthly food package targeted at the specific nutritional needs of low-income seniors. The Regional Food Bank of Oklahoma began operating CSFP in January 2010. We receive monthly shipments of this CSFP commodity food, which must be stored and managed separately from TEFAP commodity foods. This assistance goes completely to serve our needy senior population, which is currently at a caseload of 2,982. Due to the increasing needs of Oklahoma's senior population, our senior programs have been in need of significant expansion for quite some time.
- **The Child and Adult Care Food Program (CACFP)** provides nutritious meals to Oklahoma's children in after school settings. The Regional Food Bank of Oklahoma began participating in CACFP in 2010 through a partnership with the Oklahoma Department of Education. We utilize this program for snacks and meals provided through our Kids Cafe program, which provides after-school nutrition and healthy-minded educational activities and tutoring services. We have also recently been approved to use CACFP reimbursement for our school break response to ensure that chronically hungry children can continue to receive adequate nutrition even when school is not in session.

The Regional Food Bank of Oklahoma faces a challenging time ahead. Food donations are expected to drop significantly in the upcoming months, and the demand for food shows no signs of leveling off. If, in fact, the demand for food escalates dramatically due to Federal budget cuts in nutrition programs, we will be placed in the difficult situation of having a tremendous increase for our services at a time when less food is available. As you know, our situation is not isolated. Our organization's experience mirrors thousands of others across the nation who are attempting to provide the most basic necessities to millions of struggling American citizens.

Without proper nutrition as a solid foundation, children living in poverty will not have the ability to grow in a healthy manner so that they can learn and become productive citizens; parents will not have the capability to protect and provide for their family's stability; struggling adult individuals will not have a firm grasp on the resources needed to thrive; and seniors will find their limited resources stretched beyond their limits. This is why we respectfully ask you to join us in promoting a successful future for our citizens through the protection of vital Federal nutrition programs.

Sincerely,

RODNEY W. BIVENS,
Executive Director,
Regional Food Bank of Oklahoma.

The CHAIRWOMAN. Thank you.

Dr. Haskins?

STATEMENT OF RON HASKINS, PH.D., SENIOR FELLOW, ECONOMIC STUDIES PROGRAM, BROOKINGS INSTITUTION; CO-DIRECTOR, CENTER ON CHILDREN AND FAMILIES, WASHINGTON, D.C.

Dr. HASKINS. Thank you, Chairwoman Schmidt, Ranking Member Baca, and other Members of the Committee. I am pleased to be invited here and it is an honor to testify. I am going to talk about three things quickly. First, I am going to talk about the purposes of SNAP, then I am going to talk about spending on means-tested programs and on SNAP, and then finally I am going to talk about potential savings.

The purposes of SNAP make it one of the most diverse means-tested programs in the nation. We are all familiar with its function as a nutrition program with 45 million people in it and about ½ of them children. Spending $76 billion and tons of research shows that it has a real function for reducing hunger and increasing nutrition in the country.

Second, it is countercyclical. This is less widely recognized. It is one of our few programs that is in effect guaranteed annual income that can only be spent on food. And when the economy goes down, it goes up; when the economy goes up, it goes down. If you look at the pattern of spending in SNAP, you will see that that is the case. And so this is the same of families. When families hit hard times, they can qualify for SNAP and when they improve, then their SNAP benefit is reduced. So it is a very important countercyclical program, one of the few automatic programs like that that we have.

And then finally support for the poor and poor who work. And I would like to make a point of this for the Committee because I find that this is not widely understood. When Congress passed the Welfare Reform Bill in 1996, it had also passed before that time and has subsequently passed additional legislation to create what I call the work support system. These are programs that provide benefits to low income working families. Before roughly the 1980s in most cases when people on welfare went to work, they lost everything. They didn't get welfare benefits. Now, there is earned income tax credit, the child tax credit, both of which are refundable, food stamps in the amount in the 2002 Farm Bill so states could more effectively give it to families. And so it is an essential part of this work support system.

And here is how it works if you look at the chart. The figures on the left are from 1989, on the right are for 2006. Ignore the ones on the far right for a moment. The first bar graph is life in the state of nature. This is what poverty would be if there were no government programs of any type. And believe it or not, these are never-married mothers in 1989, half of them would have been poor if there were no Federal programs. And even in 2006 40 percent would be poor. The reason that number went down from almost half to 40 percent is because so many of those low income mothers went to work. Most single mothers are the most disadvantaged because they are never married.

And then if you can see that we started giving them benefits and the benefits that did not come from the Tax Code reduced poverty by about 25 percent in 1989, but it did the same thing in 2006, in fact a little bit more despite the fact that life in the state of nature got a lot better because those mothers were working.

And now if we add the benefits through the tax code you can see that we dramatically reduce poverty again in 2006 but not in 1989. And if you look at the far right, that is the total reduction in poverty because of these programs. That is why I say work support system of which SNAP is an essential component is a very important function of the program.

Second, spending, we spend a lot of money on means-tested programs and whether you measure it in constant dollars year after year after year, or if you measure it per person in poverty which kind of controls for population increases and increase and decrease in poverty and so forth, it increases almost every year. And the exact same thing is true with SNAP. I estimate that if we include state spending and Federal spending, we are spending about a trillion dollars—not quite but almost a trillion dollars on means-tested programs in this nation and it increases almost every year. So we have done a good job thus far even left, right, no matter how you look at. We are providing a lot of support to the poor.

And finally, let me pass to savings. I mentioned four different kinds of savings in my testimony but I only want to mention two here. The first one is a block grant. The House has passed the block grant. It is pretty surprising. A lot of people wouldn't have thought that this could be done, and it definitely will control spending. So I would like to make some comments to the Committee because I was somewhat involved in welfare reform in 1996 and we created a block grant.

And in particular, I want to alert the Committee to three things. First, inflation will make the block grant decline in value even if you build in reductions. Inflation will take it beyond that. We created a block grant in 1996 with no inflation adjustment. It has lost a third of its value since then. Maybe you want to do that but you should be aware of it.

Second, the purposes need to be tightly specified. I absolutely guarantee you if you create a block grant, the states will have very smart guys and ladies who figure out everything they can do with the money in that block grant. So if you think the program should be focused on nutrition, then you need to make sure you have airtight language that the states can only use it for nutrition because otherwise they will spend it on other things.

And then finally I would like to just say one word about work requirements. I may differ with some Members of the Committee on this but all of our means-tested programs should have strong work requirements. There are work requirements in food stamps. They seem to me to be largely observed in a breach. I think they should be strengthened. We should have a strong work requirement and we should impose penalties on both individuals and states who do not participate in a work program. The states would do it because they do something similar in TANF but they need more funding, so you have to invest money in order to save money in this case.

So that is my testimony. Again, I appreciate the chance to testify.

[The prepared statement of Dr. Haskins follows:]

PREPARED STATEMENT OF RON HASKINS, PH.D., SENIOR FELLOW, ECONOMIC STUDIES PROGRAM, BROOKINGS INSTITUTION; CO-DIRECTOR, CENTER ON CHILDREN AND FAMILIES, WASHINGTON, D.C.

Chairman Schmidt, Ranking Member Baca, and Members of the Subcommittee:

Thanks for inviting me to testify today. It is a privilege to testify before this important Subcommittee on the Supplemental Nutrition Assistance Program (SNAP), one of the nation's most important means-tested programs.

In accord with my discussions with Subcommittee staff, I plan to talk about the purposes of the SNAP program, spending on means-tested programs in general and SNAP in particular, and ways that spending on the SNAP program might be reduced. The last section includes a brief discussion of SNAP work requirements.

Purposes of SNAP

SNAP serves three main functions. The first and most important is to increase the ability of the poor to purchase a nutritionally adequate, albeit low cost, diet. Except in cases of fraud, the benefit can only be spent on food by individuals or families that struggle with low income. The average income (not counting the SNAP benefit) of families receiving SNAP is less than $9,000 per year and few families with income over 130 percent of the poverty level (about $18,000 for a mother and two children) receive the benefit. So the program, with some exceptions, is well targeted.[1] In addition, after years of intense effort by the U.S. Department of Agriculture and the state agencies that administer the program, SNAP payment accuracy has improved greatly and is now the highest it has ever been.[2]

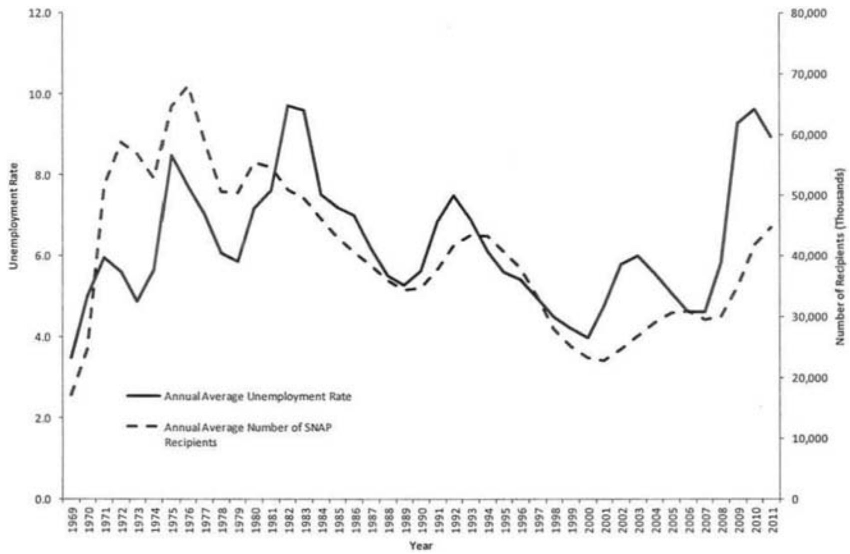
A second purpose of the program is to serve as an economic stabilizer. This purpose of the program serves two ends. From the perspective of poor individuals and families, the program is always available when need increases. Because it is an entitlement, every individual or family who meets the benefit requirements—roughly low income and low resources—can count on the benefit. Technically the United States may not have a guaranteed annual income, but in effect SNAP provides a means-tested guaranteed annual income for which every man, woman, and child in the U.S. is eligible if they meet the income and resources test. Thus it is not surprising that the number of Americans who receive SNAP bears a striking correlation with the state of the economy. As shown in *Figure 1,* when unemployment goes up, so does SNAP; when unemployment goes down, so does SNAP, although in both cases there is a time lag.[3] Next to Unemployment Compensation, SNAP is probably the nation's most reliable program for helping disadvantaged families during an economic downturn.

SNAP is also a stabilizer from the perspective of the American economy. Because the number of families getting benefits increases as unemployment and earnings fall during economic downturns, the program serves the Keynesian function of boosting spending during a recession, which in turn stimulates the American economy at a moment when stimulus is needed. The SNAP program fills both of these stabilizing functions automatically without the need for more legislation because of its open-ended entitlement funding.

[1] Congressional Budget Office, "The Supplemental Nutrition Assistance Program," Washington, D.C.: Author, April 2013.
[2] Dorothy Rosenbaum, "SNAP Is Effective and Efficient," Washington, D.C.: Center on Budget and Policy Priorities, April 2012.
[3] Congressional Budget Office, "The Supplemental Nutrition Assistance Program."

Figure 1

Unemployment Rate and Number of SNAP Recipients, 1969–2011



Source: FNS *Supplemental Nutrition Assistance Program Participation and Costs, http://www.fns.usda.gov/pd/SNAPsummary.htm* and Bureau of Labor Statistics, Unemployment Rate from the Current Population Survey.

A third function that seems to be less appreciated than the other two is that food stamps supplements the income of working poor and low-income families.[4] Experience with the 1996 welfare reform law shows that many low-income single mothers are capable of finding jobs and working full time, but they tend to have low wages and to live in poverty as a result of their low wages.[5] Sadly, wages at the bottom of the earnings scale have been stagnant or declining for the past 3 decades, making it increasingly difficult for single mothers—or any other household that depends on the earnings of one low-skilled worker—to escape from poverty even when they work full time.[6] To improve the financial status of these low-income mothers and to increase their incentive to work, Congress has enacted many laws since roughly the mid-1980s that expand or reform the rules of programs that provide cash or in-kind benefits to low-income working families. These programs include the Earned Income Tax Credit, the Child Tax Credit, Medicaid, child care, and of course SNAP. Indeed, this Committee and its Senate counterpart, working with the Bush Administration, reformed several administrative requirements of the SNAP program in the 2002 Farm Bill to make it easier for states to administer SNAP in cases in which families have earnings. It is widely believed that these reforms led to increased receipt of SNAP by poor and low-income working families. For the foreseeable future, the nation will have millions of low-income single mothers who work and around 25 percent of these mothers and their children will have earnings below the poverty leve1.[7] Many of them lack the skills to earn more money. As a result, without earn-

[4] Because SNAP phases out as earnings from work rise, SNAP also is a work disincentive for some families. Research shows that without SNAP and other means-tested benefits, more people would work and unemployment spells would be shorter. See Casey B. Mulligan, "Means-Tested Subsidies and Economic Performance since 2007," NBER Working Paper Series No. 17445; Cambridge: National Bureau of Economic Research, 2011, available at *http://www.nber.org/papers/w17445*.

[5] Ron Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington: Brookings, 2006), Chapter 15.

[6] Gary Burtless and Ron Haskins, "Inequality, Economic Mobility, and Social Policy," in Peter H. Schuck and James Q. Wilson, eds., *Understanding America: The Anatomy of an Exceptional Nation* (New York: Public Affairs, 2008), pp. 495–538.

[7] U.S. Census Bureau, *America's Families and Living Arrangements: 2011*, "Table FG5. One-Parent Unmarried Family Groups with Own Children Under 18, by Labor Force Status of the Reference Person: 2011," available at *http://www.census.gov/hhes/families/data/cps2011.html*.

ings subsidies such as SNAP, they and their children will live in poverty on a more or less permanent basis despite their work effort.

Combating this problem is the major reason the Federal Government and the states have developed the work support system. *Figure 2,* taken from an earlier edition of the Ways and Means Committee's Green Book, illustrates how effective this system is in helping low-income never-married mothers, the most disadvantaged subgroup of single mothers, get themselves and their children out of poverty. The bar graphs on the left in the first panel are for 1989 before passage of the 1996 Welfare Reform Law; the bar graphs on the right in the first panel are for 2006, a decade after welfare reform. Comparing the first bar graph in each set, it can be seen that the poverty rate for these mothers and children before any government taxes or transfers dropped by nearly 20 percent between the 2 years (from 48.3 percent to 39.6 percent). That's because so many more never-married mothers were working in 2006. In the 4 years following welfare reform, there was a 40 percent increase in the share of these mothers who had jobs, a remarkable performance by any measure.[8] Even so, their earnings alone would have left almost 40 percent of these never-married mothers and their children in poverty in 2006, despite the huge increase in work. When SNAP and other in-kind and social insurance benefits received by the families are counted as income, however, the 2006 poverty rate fell by nearly 25 percent to 29.9 percent. As compared with 1989 when many fewer mothers worked, the combination of increased work and government in-kind and insurance benefits produced a poverty level that was almost 25 percent lower in 2006. Further, when we add the work support benefits that come through the tax code primarily the EITC and the Child Tax Credit—poverty does not fall at all in 1989 but falls another 13 percent in 2006. The reasons the tax benefits reduced poverty so much in 2006 is that many more of these never-married mothers were working and the tax code benefits are based on earnings.

As shown by the second panel in *Figure 2,* the work support system reduced poverty by only 19 percent in 1989 but by 34 percent in 2006. Clearly, the work effort of disadvantaged mothers, combined with benefits from the work support system, greatly reduced poverty among these mothers and children.

Other than providing Social Security to the elderly, this combination of work requirements in the cash welfare program (Temporary Assistance for Needy Families) and work supports is the most effective strategy the Federal Government has developed to reduce poverty. And the best part is that there is something in this strategy for everyone to like because it is based both on personal responsibility and on government help premised on personal effort. I would emphasize for the Subcommittee the important role of SNAP benefits in this poverty reduction. An analysis performed for Brookings using data from the Census Bureau's Survey of Income and Program Participation (SIPP) showed that of the 1.7 million mothers who supplemented their earnings with SNAP benefits in 2010, the average monthly SNAP benefit of $354 constituted 20 percent of their income. Thus, without SNAP, many more of these families would have been in poverty (as *Figure 2* shows). In fact, if the cash value of SNAP benefits is subtracted from the income of families with working mothers, another 1.1 million mothers and their children would fall below the poverty level in an average month in 2010. Moreover, the same SIPP analysis shows that over 40 percent of single moms with incomes between 100 percent and 149 percent of the poverty level received SNAP benefits.[9] It is reasonable to view these single mothers as doing what the public expects them to do by working, many of them full time. Government in turn rewards their work effort by supplementing their earnings and thereby substantially reducing poverty.

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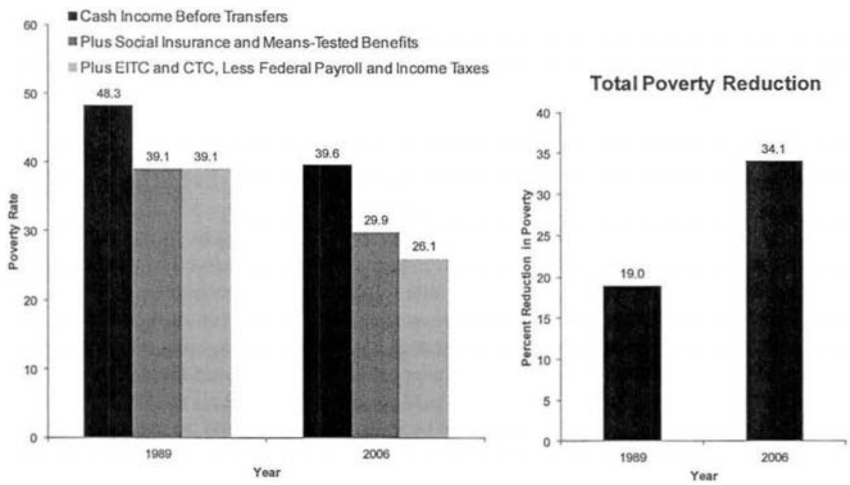
[8] Ron Haskins, "Balancing Work and Solidarity in the Western Democracies," (Berlin: Social Science Research Center Berlin, October 2010).

[9] Richard Bavier, personal communications, May 3–4,2011.

Figure 2

Government Programs and Work Combine to Reduce Poverty



Source: U.S. House of Representatives. Committee on Ways and Means, *2008 Green Book,* Appendix E, Table E–31.

Note: The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are refundable tax credits designed to help lower income families, particularly single parent families. Data are for families headed by never-married mothers.

Thus, the SNAP program performs many important functions and performs them fairly well. This does not mean that the program cannot be improved or that it would be a huge blow to the poor to reduce spending on the program, depending on how deep the cuts are and how they are engineered. Before considering the search for SNAP savings, we should briefly review spending on SNAP and other means-tested programs.

Spending on Means-Tested Programs and SNAP

The dotted line in *Figure 3,* based on a Brookings analysis of Federal budget data published by the Office of Management and Budget, shows Federal spending since 1962 in the ten means-tested programs that spent the most money in 2011, the second biggest of which is SNAP. We estimate that in 2011 about 87 percent of the spending in these ten programs was on entitlement programs, including SNAP.[10] The figure shows that Federal spending on poor and low-income Americans has increased enormously. Since 1980, by which time all but two of the ten biggest programs were in place, spending has increased by about $500 billion, from $126 billion to $626 billion after adjusting for inflation. The solid line in *Figure 3* expresses the increase in Federal means-tested spending as spending per person in poverty. Expressed in this way, over the past 5 decades, Federal spending on major means-tested programs has increased from about $516 to a little more than $13,034 per person in poverty. If we use the figure on spending per person in poverty in 1980, when most of the major means-tested programs were in place, the increase is from about $4,300 to $13,000 per person or more than $3 spent in 2011 for every dollar spent in 1980.[11]

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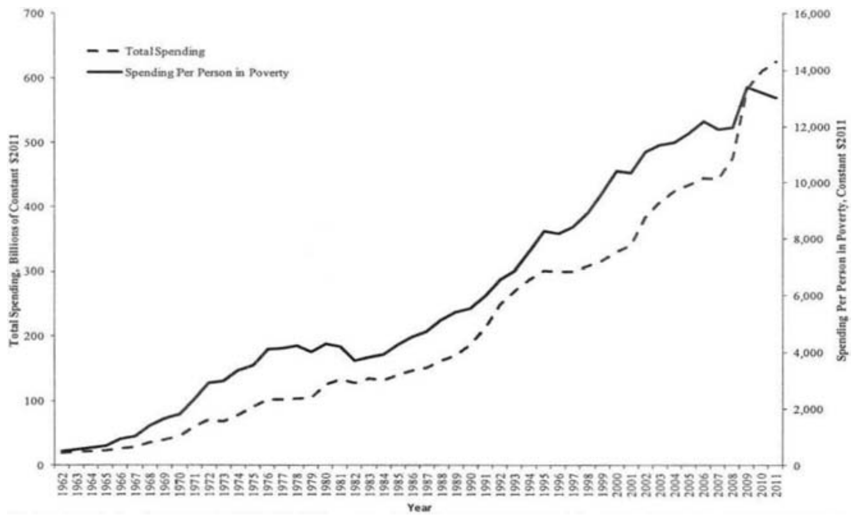
[10] Housing, Title I grants to local education agencies, and half of Pell Grants were counted as non-entitlement spending. Thus, $545.0 of total spending of $626.2 or 87 percent was entitlement spending in 2011.

[11] The number of people in poverty in 2011 will not be published by the Census Bureau until next fall. Based on a model designed by Richard Bavier, a former senior official at OMB, that has successfully predicted the poverty level for the past several years, poverty increased by .6 percentage points in 2011, bringing the poverty rate to 15.7 percent in that year. According to the American Community Survey, the population of the United States in 2011 was 306 million. Thus, around 48,042,000 people were poor in 2011. This is the figure used to compute means-tested spending per person in poverty for 2011.

Figure 3

Federal Means-Tested Spending on Biggest Programs, 1962–2011 (Constant $2011)



Notes: This series includes ten spending sources: Medicaid, SNAP, EITC, CTC where credit exceeds liability, SSI, AFDC/TANF, Housing Assistance, Medicare Part D Low Income Subsidy, ESEA Title I Grants to Local Educational Agencies, and Federal Pell Grants. Data on the last two are available starting only in 1980 and include approximately $27 billion in ARRA spending in 2009.

Sources: Most spending sources from OMB, Fiscal Year 2013 Budget, Tables 8.5, 11.3, 12.5. Title I and ESEA spending from Department of Education Budget History Table. Medicare data from CMS, 2011 Medicare Trustees Report, Table IV.B11, number for 2011 is estimated. All figures adjust to constant dollars using OMB total deflator from historical table 10.1. Data on number of people in poverty through 2010 came from Census Bureau, 2011 number estimated by Richard Bavier.

More recently, means-tested spending increased from about $477 billion to $626 billion in the 3 years of the Obama Administration, an increase of about 31 percent. However, the recession that began in December 2007 and the increase in poverty during and following the recession is an important part of the explanation for increased means-tested spending during the Obama Administration. Many programs, including SNAP, increased automatically when poverty rose during the recession. In addition, spending on a host of poverty programs, again including SNAP, was boosted still further by temporary provisions in the 2009 American Recovery and Reinvestment Act (ARRA). Yet because the increase in the number of poor people was so high, spending per person in poverty increased by only about nine percent as contrasted with the 31 percent increase in total spending during the first 3 years of the Obama Administration. In fact, spending per person in poverty actually fell in both 2010 and 2011. Much of the portion of the rise in means-tested spending that was authorized as part of the ARRA expired after 2010, although SNAP benefits are an exception as we will see below.

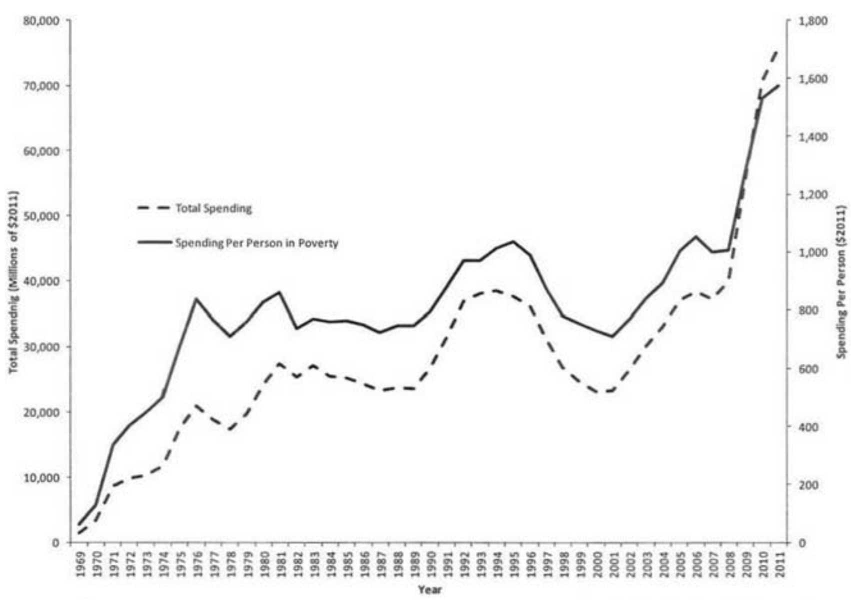
Three additional points should be made about total means-tested spending by the Federal Government. First, while it is true that the nation's major means-tested health programs account for nearly 45 percent of all the means-tested spending today and a little less than half of the increase in means-tested spending since 1980, nearly all the other programs have increased substantially as well. Between 1980 and 2011, for example, the EITC increased from $3.4 billion to $55.7 billion, the Supplemental Security Income program from $15.3 billion to $49.6 billion, and the housing programs from $14.5 billion to $45.9 billion. Second, it should be kept in mind that these spending data are for only the ten largest means-tested programs. The Congressional Research Service estimates that in 2009, spending on these ten programs represented about 75 percent of total Federal means-tested spending.[12] If that percentage remained roughly the same for 2011, total Federal means-tested spending in that year was closer to $835 billion than the $626 billion spent on the ten biggest programs. Third, states also spend a great deal of money on means-tested programs. In previous testimony before the House Budget Committee, I estimated state spending at about 25 percent of Federal spending, which would bring total Federal and state spending on means-tested programs to over $1 trillion in 2011.[13]

Turning now to spending specifically on the SNAP program, the dotted line in *Figure 4* shows that, like other means-tested programs, spending on SNAP has increased dramatically over the years (all figures given below are in constant 2011 dollars). SNAP spending was $24.2 billion in 1980, $26.6 billion in 1990, and $75.7 billion in 2011. As the solid line in *Figure 4* shows, SNAP spending per person in poverty, despite some fluctuations over the years, has increased greatly since 1969. As compared with its previous per-person-in-poverty peak in 1995, this figure had increased from $1,034 to $1,575 by 2011. By either of these measures, SNAP spending has increased over the years.

As mentioned above, the SNAP spending figures for recent years were substantially increased by the ARRA. The effect of the ARRA expansion was to increase the benefit of the average SNAP household by about 15 percent. The ARRA increases translated to increases of $24, $44, $63, and $80 a month for one-person, two-person, three-person, and four-person households respectively, although all these figures have declined since enactment of the ARRA. The cost of the increased benefits was around $57 billion. Although the benefit increases were originally expected to last until 2018, subsequent legislation altered the original ARRA provision so that the across-the-board SNAP increases will terminate in 2014, saving well over $14 billion.[14]

Figure 4

Spending on SNAP and Spending Per Person in Poverty, 1969–2011



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[12] Karen Spar, "Federal Benefits and Services for People with Low Income: Programs, Policy, and Spending, FY2008–FY2009" (R41625), (Washington: Congressional Research Service, January 2011), p. 12.

[13] Ron Haskins, Statement to the House, Committee on the Budget, *Strengthening the Safety Net,* hearing, April 17, 2012, available at *http://budget.house.gov/UploadedFiles/haskinstestimony4172012.pdf*.

[14] Joe Richardson, Jim Monke, and Gene Falk, "Reducing SNAP (Food Stamp) Benefits Provided by the ARRA: P.L. 111–26 & S. 3307" (R41374), (Washington: Congressional Research Service, August 2010).

Source: Data on SNAP Spending and Recipients from FNS, *Supplemental Nutrition Assistance Program Participation and Costs, http://www.fns.usda.gov/pd/SNAPsummary.htm*, poverty data through 2010 from Census Bureau, 2011 number estimated by Richard Bavier, all other dollar amounts adjusted to $2011 using CPI for all Urban Consumers for Food and Beverage, Bureau of Labor Statistics (Series CUUR0000SAF).

Controlling SNAP Spending

It is no secret that the Federal Government is facing an unprecedented fiscal crisis. In contrast with the United State Senate, the House has adopted a budget each year for the past 2 years that, if enacted, would actually reduce the nation's annual deficit and the amount of debt held by the public as a percentage of GDP. Since 2003, some of my Brookings colleagues and I have been writing about the dramatic threat to the nation's future imposed by the profligacy of Federal spending as compared with Federal revenues.[15] One conclusion that I have come to about deficit reduction is that Congress will be more successful if sacrifice is shared—albeit not necessarily equally—by all parts of the Federal budget in order to achieve something approaching fiscal sanity. Discretionary spending was a good place to begin, but that well is nearly dry. Now the Federal Government needs cuts or moderated increases in entitlement spending (especially Medicare) and additional revenues. “Spread the pain” should be the motto of budget cutters. Although I have spent almost all my entire career thinking about, writing about, and working on legislation affecting the nation's poor, I believe that means-tested programs, including SNAP, must be controlled either by reducing the rate of spending increases or by actual reductions in the amount spent.

In this section I consider four options for moderating or reducing spending on SNAP.[16] The first two options have received attention by both the House and Senate Agriculture Committees and by advocacy groups that defend the SNAP program. Both options would modify a program simplification rule that has a direct impact on the level of SNAP benefits received by many households. The fundamental purpose of SNAP is to augment the food purchasing power of households that may not have enough money to buy nutritious food. To make the determination of how much money the household has to purchase food, SNAP allows households to deduct certain standard expenses from income before computing the eligibility for and level of the SNAP benefit. One of the biggest deductions is the shelter deduction, including spending on utilities. Because documenting utility costs requires lots of paperwork and document verification, states are allowed to have a Standard Utility Allowance that can be claimed by any household that can show it pays out-of-pocket utility costs. Such households are not required to submit all their utility bills each month, thereby saving a lot of hassle for recipients and administrative expenses for states. Another administrative simplification is that households that receive help from the Low-Income Home Energy Assistance Program (LIHEAP) are assumed to be eligible for the Standard Utility Allowance by virtue of the fact that their receipt of LIHEAP demonstrates need. As they often do, states have taken advantage of the LIHEAP simplification rule by giving some households a token LIHEAP benefit of, say, $1 which thereby qualifies the household for the shelter deduction and saves both the recipient and the state lots of administrative hassle.

Two of the cost-savings reforms now in play would modify the Standard Utility Allowance. One proposal would require states that game the system by granting token LIHEAP benefits to provide LIHEAP benefits of at least $10 in order to qualify for the exemption. This proposal would save about $4.5 billion over 10 years. A second proposal would repeal the entire LIHEAP–SNAP link so that families that receive the allowance would need to show their utility bills in order to receive the utility portion of the deduction. This proposal would save around $15 billion over 10 years. At least part of the savings in both proposals are based on the assumption

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[15] Alice M. Rivlin and Isabel Sawhill, eds., *Restoring Fiscal Sanity: How to Balance the Budget* (Washington: Brookings Institution Press, 2004); Alice M. Rivlin and Isabel Sawhill, eds., *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenges* (Washington: Brookings Institution Press, 2005); Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future* (Washington: The Brookings Institution and The Heritage Foundation, 2008); Ron Haskins and others, *Premium Support: A Primer* (Washington: The Brookings Institution, Budgeting for National Priorities Project, 2011).

[16] The Congressional Budget Office has outlined four categories of ways to reducing spending in the SNAP program. These four approaches are to change program rules to reduce the number of people in the program, change rules to reduce benefits, change the way the program is administered such as penalties on states that make overpayments to recipients, and changing the program to a block grant; see Congressional Budget Office, “The Supplemental Nutrition Assistance Program,” (Washington: Author, April 2013), pp. 8–12.

that some households that have to experience the hassle of showing some or all utility bills would forego the utility deduction. The tendency for some families to accept the lower benefit by avoiding the hassle of showing utility bills would be strengthened by the fact that most of them would still receive a SNAP benefit; the effect of the policy change would be to reduce the size of the SNAP benefit, not to eliminate it altogether for most households. In effect, these proposals save money by reducing the size of the SNAP benefit. Losing part of the SNAP benefit certainly does not help these households, but most of them would still receive a SNAP benefit.

A third policy change that would save money, and one already enacted by the House Budget Committee, would be to convert SNAP to a block grant and reduce the amount of money in the block grant as compared with spending under current law. The Congressional Budget Office (CBO) estimates that spending on SNAP will decline from $80 billion in 2012 to $73 [17] billion in 2021 [18] as the economy recovers. Thus, funding in the block grant would have to be lower than the amount by which SNAP is already projected to decline.[19] The more general point on block grant funding is that Congress can save a great deal of money by lowering the number of Federal dollars in the block grant each year below the CBO spending baseline.

Because the 1996 Welfare Reform Law converted the Aid to Families with Dependent Children program from an open-ended entitlement like the current SNAP program to a block grant with capped funding, the Federal Government has experience with what happens when states receive block grant funding. The new program created in 1996 was the Temporary Assistance for Needy Families (TANF) program, a block grant of $16.5 billion that gave states enormous flexibility as long as they met program requirements, especially the stringent work requirements, and spent the money on poor and low-income families. Three lessons of the decade and a half experience with TANF should be considered as Congress contemplates a SNAP block grant. The first is that the value of a capped block grant declines every year due to inflation. The $16.5 billion TANF block grant has lost about ⅓ of its value since the mid-1990s. In the case of the SNAP program, the explicit purpose of converting the open-ended entitlement to a block grant is to save money. Still, in assessing the adequacy of funding in any block grant with capped funding, Congress must take into account the fact that without an inflation adjustment, the value of the block grant will actually decline even faster than whatever annual caps are placed on the block grant.

The second lesson taught by experience with the TANF block grant is that unless the uses of a potential SNAP block grant funds are tightly specified, states will use the flexibility inherent in a block grant to spend the money for many purposes other than providing food subsidies. In a 2006 report, for example, the Government Accountability Office reported that states "used Federal and state TANF funds to support a broad range of services, in contrast to 1995 when spending priorities focused more on cash assistance." [20] Thus, although TANF was built on a program that focused almost all its resources on cash subsidies for destitute families, states now use TANF funds for child care and early childhood education, child protection, and other social services. Since its inception in the 1960s, the major goal of the SNAP program has been to help families purchase nutritious food. Unless Congress wants to diffuse the use of SNAP funds to other purposes, language in the block grant must be clear that funds can only be spent to help families purchase food or for closely related purposes. Some Members of Congress may wish to give states more flexibility in the use of a SNAP block grant, but they should do so with full realization that providing such flexibility to states will result in some of the money being spent on programs that have little or nothing to do with nutrition.

A final way to save money in the SNAP program is to strengthen the program's work requirements. Indeed, more American must work and earn all or most of their household income if Federal and state governments are to move in the direction of fiscal solvency. The current SNAP program has work requirements that look strong on paper. These include the requirement that non-disabled and non-elderly recipients register for work, accept a job if offered, search for work or meet other work requirements that states impose (and are approved by the Department of Agriculture). In addition, recipients cannot quit a job or voluntarily reduce their hours of work to less than 30. A separate provision, often called the ABAWD (able-bodied

[17] Inflation will erode the value of benefits to around $59 billion in 2022.

[18] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022* (Washington: Author, January 2012), p. 52.

[19] Congressional Budget Office, "The Supplemental Nutrition Assistance Program," (Washington: Author, April 2013), p. 4 and *Figure 2*.

[20] Government Accountability Office, "Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant," (GA0–06–414), (Washington: Author, 2006).

adults without dependents) rule, recipients between the ages of 18 and 50 who have no dependents must work at least 20 hours per week or they can qualify for SNAP benefits for only 3 months (6 months under some circumstances if they lose a job) in a given 36 month period.[21]

But these requirements do not seem to be rigorously enforced. In fact, the Administration has requested that the ABAWD rule be suspended for 2013 (as it was for part of 2009 and 2010). But those who think able-bodied welfare recipients should be required to work may want to strengthen the SNAP work requirements. If the Agriculture Committee decided to move in this direction, at least three changes in Federal law would be required. First, Federal law should set participation standards stipulating the percentage of non-exempt adults receiving SNAP who must engage in, say, 20 hours of work-related activity each week. The TANF program requires states to meet a 50 percent participation standard and that standard seems reasonable for the SNAP program as well. Second, SNAP would need to impose fines on individuals, including complete disqualification from the program, for noncompliance with work requirements. States already have the authority to impose sanctions, but states must use the sanctions more extensively if they are to have their intended impact. Like SNAP recipients, states that fail to meet their work requirements would also be subject to financial sanction. The goal of sanctions on states is to get them to implement the SNAP work requirements as aggressively as they implemented the TANF work requirements after the 1996 welfare reforms. Third, states will need additional funding to operate their employment programs. The Administration has requested $218,873,000 for 2013 to reimburse states at 50 percent to operate their employment and training programs.[22] Although my view is that job search is the most effective use of funds, the SNAP employment and training account currently will pay for job search training and support, workfare, educational activities, and self-employment training. The Agriculture Committee would have to explore the cost of imposing a 50 percent work requirement on states, perhaps phased-in over 5 years beginning at 20 percent, with the Congressional Budget Office. However, about 60 percent of SNAP recipients would be exempt from the work requirement because of age or disability (in 2010, 47 percent were children, eight percent were elderly, and six percent were disabled).[23] Although there would certainly be up-front costs, in the long run extensive and rigorous research on work requirements in the cash welfare program shows that there would be budget savings for Federal, state, and local governments.[24]

Conclusion

As Congress considers savings in means-tested programs in general and the SNAP program in particular, it would be wise to review the costs of policies designed to reduce spending as well as the savings from such policies. Just as policymakers are concerned about costs and benefits when they consider creating new programs, the same review of costs and benefits should be applied to decisions about achieving savings through cuts in existing programs. As we have seen, the SNAP program performs several functions in admirable fashion: it stabilizes individual and family income more reliably than any other means-tested program; it creates a countercyclical force in the American economy by automatically rising during periods of increased unemployment and falling as employment recovers; it serves as a work incentive for millions of working families (but not all working families); and it substantially reduces poverty among low-income working families. In my view, it does not follow that the SNAP program should be off the table as Congress struggles to find ways to reduce the nation's budget deficit. Unless Congress takes action on the deficit now, and especially on government spending, the actions we will be forced to take later will make even what seem like difficult changes in SNAP and other means-tested programs today seem rather modest. At least for now, the achievements of the SNAP program should lead policymakers to keep cuts moderate and to do as little damage as possible to the ways in which SNAP achieves its many purposes. If I could protect individual means-tested programs from the deficit-reducing scalpel (or ax), SNAP would be high on my list of protected programs. But given the seriousness of the budget crisis, and the need to extend program cuts to entitlement spending, the SNAP program should not be completely protected. Even so, be-

[21] Congressional Budget Office, "The Supplemental Nutrition Assistance Program."
[22] Department of Agriculture, "2013 Explanatory Notes," available at: *http://www.obpa.usda.gov/30fns2013notes.pdf*.
[23] Congressional Budget Office, "The Supplemental Nutrition Assistance Program."
[24] David A. Long, "The Budgetary Implications of Welfare Reform: Lessons from Four State Initiatives," *Journal of Policy Analysis and Management* 7, no. 2 (1981): 289–299.

cause no other program fulfills such a diverse array of worthy goals as effectively as SNAP, cuts should be made with caution.

The CHAIRWOMAN. Thank you so much.
Ms. Dean?

STATEMENT OF STACY DEAN, VICE PRESIDENT FOR FOOD ASSISTANCE POLICY, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, D.C.

Ms. DEAN. Thank you. Madam Chair, Ranking Member Baca, and Members of the Committee, thank you for the invitation to testify today. I am Stacy Dean, Vice President for Food Assistance Policy at the Center on Budget and Policy Priorities, a nonpartisan policy institute here in Washington.

I am really pleased to have the opportunity to talk to you today about the Supplemental Nutrition Assistance Program, or SNAP. SNAP is designed to provide a basic nutrition benefit to low income families, the elderly, and people with disabilities who cannot afford an adequate diet. And while the program is not perfect, it does an admirable job of meeting its core purpose. Even though many low income Americans continue to struggle as Mr. Bivens said, really don't know where their next meal will be coming from, SNAP has largely eliminated severe hunger and malnutrition in the United States. This would be a very different country without the program.

So I would like to take this opportunity to highlight some of the programs key strengths and to respond to concerns about its growth. As Dr. Haskins said, SNAP is highly responsive to need. It is an entitlement meaning anyone who qualifies under its rules can receive benefits. And this is the program's most powerful feature. It enables SNAP to respond quickly and effectively to support low income families and the communities they live in during times of economic distress. Enrollment expands when the economy weakens and contracts when the economy recovers.

Now, some critics have used growth to raise concerns about the program and justify proposals to cut its food benefits. Many of their claims about growth are flatly wrong as I will explain. Again, the economy is the overwhelming reason for SNAP's recent growth. The recession and lagging recovery weakens the economic circumstances of millions of Americans and dramatically increase the number of households who qualify and apply for SNAP.

There have been two other factors that have contributed to recent growth. First, the 2009 Recovery Act Congress temporarily increased SNAP benefits as a highly effective, targeted means of delivering economic stimulus. And according to CBO, this accounts for about 20 percent of the recent growth. And second, the program is doing a better job at reaching people who qualify. That accounts for about ten percent of the growth in caseloads.

And for those concerned about SNAP's recent growth, CBO projects that SNAP spending will shrink in the years ahead as the economy recovers. By 2021 it will be nearly back down to pre-recession levels as a share of the economy or GDP. And moreover, SNAP is projected to grow no faster than the economy in futures years or decades, so there is no basis for claims that SNAP is contributing to the nation's long-term budget problems.

So let me list two more of SNAP's key strengths before wrapping up. As Dr. Haskins said, SNAP is a powerful anti-poverty program. While benefits are modest, they have a big impact. SNAP lifted about four million Americans above the poverty line in 2010, including about two million children according to our analysis using the National Academies of Science's measures of poverty which counts SNAP as income. And SNAP is a very important work support. The number of low income working households on SNAP has risen dramatically over the past decade reflecting both a substantial rise in the participation of eligible working families, as well as wage erosion at the low end of the pay scale, which has made more working households eligible for SNAP.

Looking ahead to the farm bill, I recognize that you are working in a very difficult budget environment that could make needed investments in the program extremely difficult to enact. Ideally today we would be discussing ways to strengthen the program such as improving benefit adequacy, supporting innovative state practices or finding new ways to connect eligible low income seniors to the program. But let us be clear. Cutting SNAP benefits as a means to achieve deficit reduction has serious negative consequences. It would compromise low income Americans' ability to obtain a basic diet and it would have potential health effects on substantial numbers of our most vulnerable citizens.

SNAP households include four million seniors, four million adults who receive disability benefits, and 23 million children, including ten million children in households with annual income below half the poverty line. Those are powerful figures but they don't fully express the stories of families that use the program. As I travel around the country working with SNAP administrators to help improve their programs, I have met many families as they apply for or work to renew their benefits. I have met a single mom working as a gas station attendant whose ex-husband stopped paying child support, a woman with a new baby whose husband lost his job as a roofer due to a work-related accident, and a disabled woman who was incredibly grateful for SNAP because it freed up money for her to pay for medicine.

So as you formulate the 2012 Farm Bill, I ask that you keep those families in mind and recognize how well SNAP serves them.

Thank you very much.

[The prepared statement of Ms. Dean follows:]

PREPARED STATEMENT OF STACY DEAN, VICE PRESIDENT FOR FOOD ASSISTANCE POLICY, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, D.C.

Thank you for the invitation to testify today. I am Stacy Dean, Vice President for Food Assistance Policy at the Center on Budget and Policy Priorities, a nonpartisan policy institute located here in Washington. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of Federal and state policy issues affecting low- and moderate-income families. The Center's food assistance work focuses on improving the effectiveness of the major Federal nutrition programs, with a particular focus on the Supplemental Nutrition Assistance Program (SNAP). We receive no government funding.

My testimony today focuses on the impact of SNAP (known as the Food Stamp Program until 2008), its performance during the recent economic down turn, and issues for consideration during the upcoming reauthorization of the program. SNAP is our nation's most important anti-hunger program. As of February of this year, it was helping 46 million low-income Americans to afford a nutritionally adequate diet by providing them with benefits via a debit card that can only be used to purchase food. One in seven Americans is participating in SNAP—a figure that speaks both to the extensive need across our country and to SNAP's important role in addressing it.

Policymakers created SNAP to help low-income families and individuals purchase an adequate diet. It does an admirable job of providing poor households with basic nutritional support and has largely eliminated severe hunger and malnutrition in the United States.

When the program was first established, hunger and malnutrition were much more serious problems in this country than they are today. A team of Field Foundation-sponsored doctors that examined hunger and malnutrition among poor children in the South, Appalachia, and other very poor areas in 1967 (before the Food Stamp Program was widespread in these areas) and again in the late 1970s (after the program had been instituted nationwide) found marked reductions over this 10 year period in serious nutrition-related problems among children. The doctors attributed a significant part of this reduction to the Food Stamp Program. Findings such as this led then-Senator Robert Dole to describe the Food Stamp Program as the most important advance in the nation's social programs since the creation of Social Security.

Consistent with its original purpose, SNAP continues to provide a basic nutrition benefit to low-income families, elderly and people with disabilities who cannot afford an adequate diet. But today's program is stronger than at any previous point. By taking advantage of modern technology and business practices, SNAP has become substantially more efficient, accurate, and effective. While many low-income Americans continue to struggle, this would be a very different country without SNAP.

Despite these successes, Census data indicate that in 2010 more than one in seven households nationwide were "food insecure," meaning that at times throughout the year households were uncertain of having sufficient resources to provide adequate food for family members; almost 49 million people lived in such households. Reauthorization of SNAP provides an important opportunity to review the program's strengths and improve it for individuals in need.

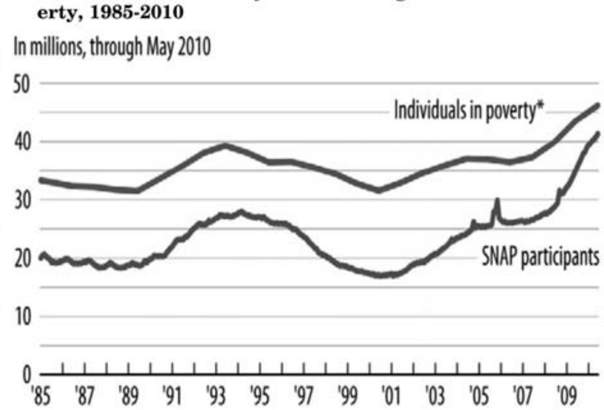
Special Features of SNAP

Protecting Families from Hardship and Hunger

SNAP benefits are an entitlement, which means that anyone who qualifies under the program's rules can receive benefits. This is the program's most powerful feature; it enables SNAP to respond quickly and effectively to support low-income families and communities during times of economic downturn and increased need. Enrollment expands when the economy weakens and contracts when the economy recovers.

As a result, SNAP can respond immediately to help families and to bridge temporary periods of unemployment or a family crisis. If a parent loses her job, SNAP can help her feed her children until she is able to improve her circumstances. A USDA study of SNAP participation over the mid-2000's found that more than half of all new entrants to SNAP participated for less than one year and then left the program when their immediate need passed.

SNAP Caseloads Closely Track Changes in Poverty, 1985-2010



* Poverty numbers are annual estimates and not yet available after 2010. Spikes in SNAP participants are from disaster benefits (*i.e.,* after hurricanes).
Sources: U.S. Department of Agriculture (SNAP Program Participants); U.S. Census Bureau (annual estimates of individuals in poverty).

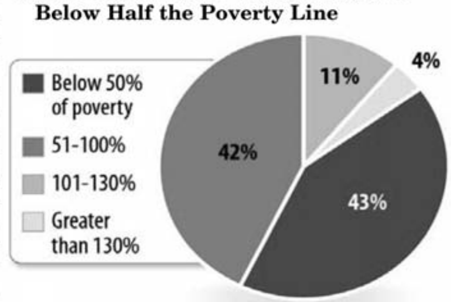
Since December 2007, when the recession began, SNAP enrollment has increased by 19 million people. In some of the states hit hardest by the downturn, caseloads have more than doubled. For example, in Nevada, Florida, and Utah, where unemployment increased by up to 160 percent between December 2007 and December 2011, the number of SNAP participants increased by 125 to 160 percent.

SNAP's ability to serve as an automatic responder is also important when natural disasters strike. States can provide emergency SNAP within a matter of days to help disaster victims purchase food. After the hurricanes of 2005, for example, SNAP provided more than two million households with almost $1 billion in temporary food assistance. In 2011, SNAP responded to two major sets of disasters: the spring floods and tornados (primarily in the Southeast and Midwest), and in the fall, Hurricane Irene and Tropical Storm Lee (in the Mid-Atlantic and Northeast).

Lessening the Extent and Severity of Poverty and Unemployment

SNAP targets benefits on those most in need and least able to afford an adequate diet. Its benefit formula takes into consideration a household's income level as well as its essential expenses, such as rent, medicine, and child care. Although a family's total income is the most important factor affecting its ability to purchase food, it is not the only factor. For example, a family spending two-thirds of its income on rent and utilities will have less money to buy food than a family that has the same income but lives in public or subsidized housing.

Two-Fifths of SNAP Households Are Below Half the Poverty Line



Source: USDA Food and Nutrition Service Quality Control Data, FY 2010.

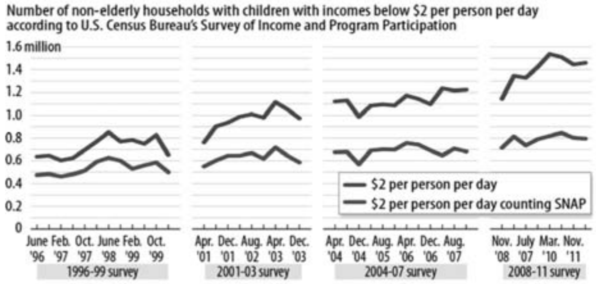
While the targeting of benefits adds some complexity to the program, it helps ensure that SNAP provides the most assistance to the poorest families with the greatest needs.

These features make SNAP a powerful tool in fighting poverty. A CBPP analysis using the National Academy of Science measure of poverty, which counts SNAP as income and identified 47.3 million people living in poverty in 2010, found that SNAP kept about four million people out of poverty, including about two million children. SNAP lifted 1.3 million children above 50 percent of the poverty line in 2010, more than any other benefit program.

SNAP is also effective in reducing *extreme* poverty. A recent study by the National Poverty Center estimated the number of U.S. households living on less than $2 per person per day, a classification of poverty that the World Bank uses for developing nations. The study found that counting SNAP benefits as income reduced the number of these extremely poor families with children in 2011 from 1.46 million to 800,000, and reduced the number of children in extreme poverty in 2011 by ½—from 2.8 million to 1.4 million.

SNAP Cuts Extreme Poverty Significantly

Number of non-elderly households with children with incomes below $2 per person per day according to U.S. Census Bureau's Survey of Income and Program Participation



Source: National Poverty Center.

SNAP is able to achieve these results because it is so targeted at households with very low incomes. Roughly 93 percent of SNAP benefits goes to households with incomes below the poverty line, and 55 percent goes to households with incomes below *half* of the poverty line (about $9,300 for a family of three).

During the deep and prolonged recession and weak recovery, SNAP has become increasingly valuable for the long-term unemployed. In 2010, according to the Joint Economic Committee, over 20 percent of those who had been unemployed for more than 6 months received SNAP benefits. SNAP is one of the few resources available for jobless workers who have exhausted their unemployment benefits; nearly 25 percent of households in which someone's unemployment benefits ended were enrolled in SNAP.

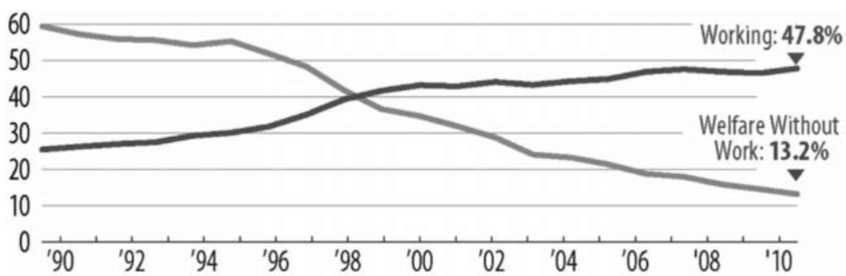
SNAP also protects the economy as a whole by helping to maintain overall demand for food during slow economic periods. In fact, SNAP benefits are one of the fastest, most effective forms of economic stimulus because they get money into the economy quickly. Moody's Analytics estimates that in a weak economy, every $1 increase in SNAP benefits generates $1.71 in economic activity. Similarly, the Congressional Budget Office (CBO) rated an increase in SNAP benefits as one of the two most cost-effective of all spending and tax options it examined for boosting growth and jobs in a weak economy.

Supporting and Encouraging work

Over the last 2 decades, the share of SNAP households that are *working* households has risen significantly. In 2010 more than three times as many SNAP households worked as relied entirely on welfare benefits for their income. (See chart: "Working Households Have Risen.") Nearly half of all SNAP households with children have earned income.

Working Households Have Risen

Share of SNAP Households With Children by Type of Income



Data Source: USDA Office of Research and Analysis, Characteristics of SNAP Households.

Despite sharply higher unemployment during the recession, the share of SNAP families with children that have earnings has remained stable. Even in 2010, when unemployment was 9.6 percent and jobs were hard to find, the majority of SNAP households that contained a non-disabled working-age adult were *working* households. The number of low-income working households on SNAP has risen dramatically over the past decade, reflecting both a substantial increase in SNAP participation among eligible low-income working households and wage erosion at the low end of the wage scale, which makes more working households eligible for SNAP.

The data also show that the majority of non-disabled working-aged adults who were *not* working while receiving SNAP worked either in the prior year or the following year. Among SNAP households that worked in the year before they began to receive SNAP, only four percent did not work in the following year, which indicates that turning to SNAP when families face hard times does not lead them to cease working.

SNAP benefits help low-wage working families make ends meet. Moreover, the SNAP benefit formula contains an important work incentive. For every additional dollar a SNAP recipient earns, her benefits decline by only 24¢ to 36¢—much less than in most other programs. Families that receive SNAP thus have a strong incentive to work longer hours or to search for better-paying employment.

States further support work through the SNAP Employment and Training program, which funds training and work activities for unemployed adults who receive SNAP. Due to limited funding, however, the program can help only a modest portion of SNAP recipients who are unemployed and aren't enrolled in, or subject to, another work program or set of work requirements, such as under TANF. The Committee's recommendations to the Budget Committee for reconciliation would exacerbate this problem by imposing large cuts in SNAP employment and training funding, as discussed below. While many SNAP participants work, some face multiple barriers to work due to their very low skills or health problems. A 2003 GAO report found that SNAP E&T participants generally have limited education—often they have not finished high school—with limited work history and skills. State officials reported to GAO that SNAP E&T participants often had to rely on seasonal and intermittent employment and often lacked reliable transportation and affordable child care, factors that contributed to the challenge of finding and maintaining employment. SNAP E&T is an important means to assist these individuals gain the skills they need to enter or re-enter the workforce.

Some have argued that the existing workforce system and programs are duplicative of SNAP E&T and that SNAP E&T thus isn't needed. That is not the case. Existing job training programs are not equipped to serve many SNAP participants. Funding for job services under the Temporary Assistance for Needy Families block grant is already inadequate, and is unavailable to many SNAP participants, including those without children. Job programs funded by the Workforce Investment Act (WIA) are generally not designed to address the barriers to employment that many low-income SNAP participants face. Because WIA is serving an increasing number of non-poor jobseekers with a frozen level of funding, the number of low-income individuals receiving job training through WIA has declined. Indeed, the GAO reported that some state agencies operating WIA programs are reluctant to provide intensive services to SNAP participants due to concern that doing so would adversely affect the program's performance measures.

Supporting Healthy Eating

While I've focused so far primarily on SNAP's role in reducing poverty and responding to downturns, we should not forget that SNAP enables low-income households to afford a more healthy diet. Because SNAP benefits can be spent *only* on food, they raise families' food purchases more than an equivalent amount of cash assistance would. Fruits and vegetables, grain products, meats, and dairy products comprise almost 90 percent of the food that SNAP households buy. In addition, all states operate SNAP nutrition education programs to help participants make healthy food choices. Recent research finds that the nationwide expansion of SNAP in the 1960s reduced the incidence of low birth weight, as well as infant mortality to some extent.

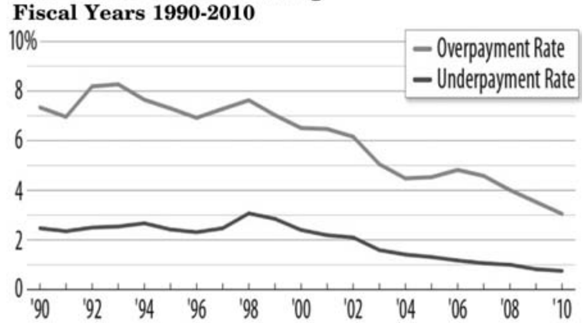
Issues Related to SNAP

Despite SNAP's many strengths and its powerful response to the recent downturn, some policymakers have raised questions about the program, primarily concerning waste and fraud, SNAP's recent growth, and its effect on the nation's long-term fiscal problems. I will examine each of these issues in turn.

SNAP has one of the most rigorous payment error measurement systems of any public benefit program. Each year states take a representative sample of SNAP cases (totaling about 50,000 cases nationally) and thoroughly review the accuracy of their eligibility and benefit decisions. Federal officials re-review a subsample of the cases to ensure accuracy in the error rates. States are subject to fiscal penalties if their error rates are persistently higher than the national average.

Despite the recent rapid caseload growth, states achieved a record-low SNAP error rate in fiscal year 2010. Only 3 percent of all SNAP benefits represented overpayments, meaning they either went to ineligible households or went to eligible households but in excessive amounts. More than 98 percent of SNAP benefits were issued to eligible households.

SNAP Error Rates Declining
Fiscal Years 1990-2010



Source: Quality Control Branch, U.S. Food and Nutrition Service.

In addition, the *combined* error rate—that is, the sum of overpayments and underpayments (see box) reached an all-time low in 2010 of just 3.81 percent. The overpayment error rate counts benefits either issued to ineligible households or issued to eligible households in excess of what Federal rules provide. The underpayment error rate measures errors in which eligible, participating households received smaller benefits than SNAP rules call for. The combined payment error rate is the *sum, not the net,* of the overpayment and underpayment error rates.

In 2010, for example, the overpayment error rate was 3.05 percent and the underpayment rate was 0.75 percent. The combined error rate was thus 3.81 percent. But the *net loss* to the Federal Government from errors (the overpayment rate minus the underpayment rate) was 2.3 percent.

In comparison, the Internal Revenue Service (IRS) estimates a noncompliance rate on the income tax of 16.9 percent in 2006 (the most recently studied year). This represents $385 billion lost to the Federal Government in 1 year. Under-reporting of business income alone cost the Federal Government $122 billion in 2006, and small businesses report less than half of their income.

The overwhelming majority of SNAP errors that do occur result from mistakes by recipients, eligibility workers, data entry clerks, or computer programmers, not dishonesty or fraud by recipients. In addition, states have reported that almost 60 percent of the dollar value of overpayments and more than 90 percent of the dollar value of underpayments were their fault, rather than recipients' fault. Much of the rest of overpayments resulted from innocent errors by households facing a program with complex rules.

Finally, SNAP has low administrative overhead. Almost 95 percent of Federal SNAP spending goes to providing benefits to households for purchasing food. Most of the rest goes toward Federal and state administrative costs, including reviews to determine that applicants are eligible, employment and training activities, nutrition education, monitoring of retailers that accept SNAP, and anti-fraud activities.

Increases in SNAP Costs

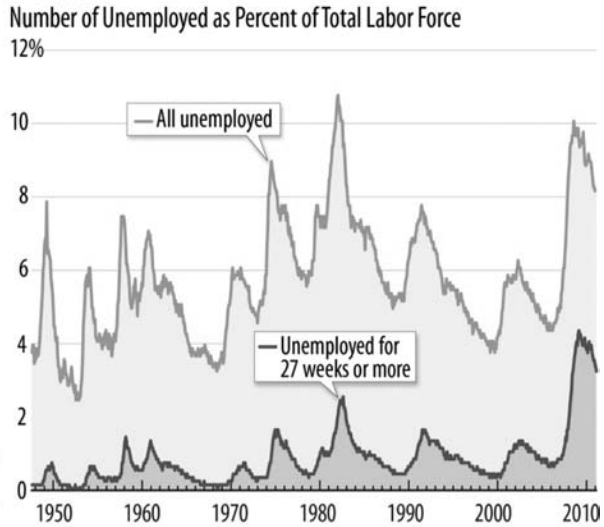
There is widespread misunderstanding regarding the reasons for the large growth in SNAP spending in recent years and what is likely to happen in the future. SNAP costs have grown substantially over the past decade, but for reasons that show the program is working. And they are expected to come down in the coming years. Claims that cuts to SNAP are justified because the program is growing in unsustainable ways are misplaced.

The single biggest reason for program growth is the effect of the recession and lagging recovery on the economic circumstances of millions of Americans. Unemployment peaked at ten percent in late 2009, and long-term unemployment (of 6 months or more) has set all-time highs.

[1] Congressional Budget Office, "The Supplemental Nutrition Assistance Program," April 2012.

A recent CBO report confirmed that "the primary reason for the increase in the number of participants was the deep recession from December 2007 to June 2009 and the subsequent slow recovery; there were no significant legislative expansions of eligibility for the program during that time."[1] Put another way, the recession dramatically increased the number of low-income households who qualified for and applied for help from the program; SNAP expanded to meet the increased need. Without SNAP, poverty and hardship would have been significantly worse in the last few years.

Long-Term Unemployment at Unprecedented Levels



Source: Bureau of Labor Statistics.

To be sure, the downturn does not explain all of the recent increase in SNAP costs. Some people assume that eligibility expansions are largely responsible for the remainder of the cost increase and that, as a result, SNAP expenditures and participation will continue growing even after the economy recovers. Careful analysis indicates, however, that such assumptions are incorrect.

As in many other areas of budgetary analysis, the year one picks as a starting point for a historical analysis matters. For SNAP, starting only 10 years ago provides a distorted picture of program growth because SNAP participation and costs had plummeted at that point, in part due to a large *decrease* in the proportion of eligible families receiving SNAP in the late 1990s. The 1996 welfare law was intended to encourage work, but due to problems in state administrative systems in the first years of implementation, many families moving from welfare to working-poor status were cut off SNAP when they left welfare, even though they remained eligible for SNAP. This was not what Congress had intended.

Aggravating this problem, some states instituted administrative practices in those years that had the unintended effect of making it harder for many working-poor parents to participate in SNAP (largely by forcing them to take too much time off from work for repeated visits to SNAP offices at frequent intervals, such as every 90 days, to reapply for benefits).

This prompted many to call for reforms that would improve access to SNAP for low-income working families and led both the Clinton and Bush Administrations to act to address this problem. A bipartisan consensus emerged that making it difficult for families to continue receiving SNAP when they left welfare for low-wage work would discourage work and conflict with welfare reform goals.

As a result, Congress enacted meaningful, although relatively modest, changes in 2002 and 2008 to lessen barriers to SNAP participation among the working poor, as well as modest improvements in benefits largely aimed at low-wage workers and their families. In addition, most states took steps to improve access for working families. These measures have succeeded: the SNAP participation rate, which had plummeted from 75 percent of eligible individuals in 1994 to 54 percent in 2002, is back to 72 percent today.[2] Of particular note, SNAP participation among low-income *working* families has risen steadily, from 43 percent in 2002 to about 60 percent in 2009, a record high.

The final major contributor to recent SNAP spending growth is the temporary SNAP benefit increase that Congress enacted as part of the 2009 Recovery Act in order to reduce hardship and deliver high "bang-for-the-buck" economic stimulus.

[2] The most recent year for which USDA publishes estimates is 2009.

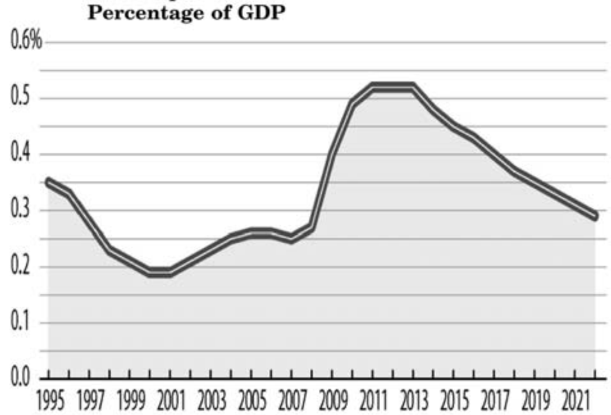
CBO reports that this provision accounted for 20 percent of the growth in the program between 2007 and 2011.

In sum, there are three main reasons for the large increase over the past decade in SNAP expenditures: the economy, a large increase in participation among eligible households (especially eligible working households), and the Recovery Act's temporary benefit increase. These three factors dwarf the impact of eligibility changes during this period.

What lies ahead with regard to SNAP costs? Under current SNAP law, without any changes, expenditures will *decline* in the coming years, for two reasons.

First, history suggests that SNAP caseloads and expenditures will fall after unemployment and poverty fall, as CBO's recent report on the SNAP program notes. SNAP caseload growth already has slowed dramatically; in fact, in January and February (the most recent 2 months of data), SNAP participation was modestly *lower* than the prior month. According to CBO, in the coming years the share of the population that participates in SNAP will fall back to 2008 levels.

SNAP Expenditures Under Current Law as a Percentage of GDP



Sources: OMB historical tables and CBO March 2012 baseline outlay and economic forecast.

In addition, the Recovery Act benefit increase is slated to end on October 31, 2013, reducing benefits for all SNAP households.

The graph "SNAP Expenditures Under Current Law as a Percentage of GDP" shows where all this will lead. The graph projects actual SNAP costs through fiscal year 2011, and CBO's projection of costs under current law through 2021. It shows that SNAP costs as a share of the economy are expected to decline all of the way back to their 1995 level as a percentage of GDP by 2018, and then to edge below that level.

This means that SNAP is not contributing to our long-term budgetary problems. Unlike health care programs and Social Security, there are no significant demographic or programmatic pressures that will cause SNAP costs to grow faster than the economy. This also means that the recent growth in SNAP expenditures is not a sound justification for imposing SNAP cuts.

The Budget and SNAP

This year's farm bill will likely need to produce savings that contribute to deficit reduction. The nation is on an unsustainable fiscal course, and changes are needed to correct that path. But the United States also has levels of poverty and inequality significantly higher than most other western industrialized nations. Furthermore, poverty—and especially deep poverty—among children may have negative long-term effects on the economy, as well as on the children themselves.

The 2010 report by deficit commission co-chairs Erskine Bowles and Alan Simpson and a majority of the commission members emphasized, as one of its core principles, that deficit reduction should not increase poverty or harm the disadvantaged. The report did not call for reductions in any low-income program outside Medicaid. Similarly, when the Senate's bipartisan Gang of Six developed it's framework for deficit reduction, it also said that SNAP should not be cut. Last year, a diverse group of Christian leaders representing the Catholic Bishops' Conference, the Episcopal Church, the Salvation Army, the National Association of Evangelicals, and others issued a call for policymakers to safeguard the poor in deficit reduction and to draw a "circle of protection" around programs targeted on them.

History shows that deficit reduction need not harm the poor. In 1990, 1993, and 1997, policymakers enacted legislation that reduced deficits substantially—and helped produce 4 years of surpluses—*without* harming low-income families. In fact, all three laws included well-designed measures (such as improvements in the

Earned Income Tax Credit for working-poor families and creation of the Children's Health Insurance Program) that *reduced* poverty and hardship. These examples provide useful precedents for policymakers today.

I urge policymakers to seriously consider these principles and precedents in evaluating proposed changes to SNAP, such as the Committee's recent recommendations to the Budget Committee on reconciliation savings and the Budget Committee's proposal to block grant SNAP.

House Agriculture Committee Reconciliation Recommendations

Required by House Concurrent Resolution 112 to produce $33 billion in savings over the next decade, the Committee produced legislation last month that would obtain the entire amount from cuts to SNAP. I am deeply concerned about the package that the Committee approved.

- **The cuts would affect every SNAP household.** Some two million individuals, disproportionately working families and seniors, would lose SNAP benefits entirely. All remaining 44 million individuals who receive SNAP would see their benefits cut. For example, in September 2012, every household of four would see its benefits cut by at least $57 a month; all households of three would lose at least $31 a month.
- **The proposal would increase poverty and hardship and could affect the economy adversely.** As noted, SNAP lifted about four million people out of poverty in 2010, including about two million children, under a poverty measure that counts the value of SNAP and other non-cash benefits, as analysts generally recommend. The proposed cut in SNAP benefits would push some households into poverty and deepen the extent of poverty for millions of others.
- **The proposal would cut funds for job training at a time when the unemployment rate exceeds eight percent.** Some proponents of large cuts in SNAP and other low-income programs argue that policymakers should place greater emphasis on promoting work. Yet the House SNAP proposal would cut Federal funding for SNAP employment and training by 72 percent by removing Federal matching funds for job training and other employment programs for jobless SNAP recipients, along with associated child care, transportation, and other work supports. This cut would make it *harder* for SNAP households that are unemployed to find jobs.

Many observers do not expect the House reconciliation package to become law because of opposition in the Senate. I would urge you to set aside this package and to reconsider cutting SNAP as you move forward with the farm bill. Cutting SNAP benefits could compromise low-income Americans' ability to obtain a basic diet, with potential negative health effects on poor children, seniors, and people with disabilities. SNAP households include four million seniors, four million adults who receive disability benefits, and 23 million children, including ten million children in households with cash income below half the poverty level.

Block Grant Proposal

The proposal in the House budget to convert SNAP to a block grant and cut it at least $133.5 billion over 10 years is ill-advised.

As noted, SNAP funds go overwhelmingly for food purchases—nearly 95 percent of Federal SNAP expenditures go directly for benefits to recipients. Most of the remainder goes to determine eligibility, administer the work requirements and work programs, and approve and monitor compliance by retail food stores—costs that would largely remain under a block grant. The math here leads to an inevitable result; *the only way to secure savings of this magnitude would be to substantially cut eligibility, benefit levels, or both.*

If the savings were to come entirely from restricting eligibility, more than eight million people would need to be cut adrift if the cuts began taking effect in 2013. (If the cuts did not begin until 2016, the year in which the House budget envisions converting SNAP to a block grant, an average of almost ten million people would have to be cut from the program from 2016 through 2022 to achieve the required savings.) States would likely restrict eligibility, at least in substantial part, by lowering income (and possibly asset) limits, which would primarily remove low-income *working* families from the program. A program structure that provides SNAP to families on public assistance but denies it to many who work for low wages would have much weaker work incentives than SNAP has today.

If the savings were secured by cutting benefit levels instead, increased hunger and food insecurity would likely result. Considerable research suggests that the SNAP benefit level may already be too low to enable many families to secure an adequate diet throughout the month. (Many run out of adequate food toward month's end.) It would be dangerous to shrink benefit levels for needy children, seniors, and others.

Converting SNAP to a block grant at substantially reduced funding levels also would have other deleterious effects.

- SNAP would no longer be able to respond to increased need during economic downturns, so hardship and hunger would be worse in future recessions than if SNAP's current structure is maintained.
- Nor would SNAP be able to bolster the economy during recessions as it does today. In studying the effect of 22 different tax and spending options to promote economic growth and jobs in a weak economy, economist Mark Zandi of Moody's Analytics rated temporary increases in SNAP benefits *first* in effectiveness per dollar of cost, ahead of both unemployment insurance and all tax-cut options. CBO similarly gives SNAP increases its top rating for effectiveness in a weak economy. This is because SNAP benefits are quickly spent and injected into the economy, rather than saved. Preventing SNAP from expanding automatically as the economy weakens by converting it to a block grant would remove what economists call an "automatic stabilizer" and hence likely make recessions somewhat deeper and longer.
- Finally, a proposal to cut SNAP like that in the House budget would almost certainly make *deep poverty* more widespread and severe—especially among children, who make up about half of SNAP beneficiaries. That could have harmful long-term consequences for these children. Emerging research shows the importance to children's future earnings prospects of adequate family income and purchasing power during early childhood.

Looking Ahead

Debates over the overall budget framework and whether to cut safety net programs have impeded the conversation that policymakers ought to be having as a part of the farm bill: how can we strengthen SNAP to respond still more effectively to hunger and poverty? Despite SNAP's many strengths, the program could be improved to ensure that it more comprehensively responds to low-income families' needs.

I will highlight three particular areas for the Committee's consideration.

Revisiting Eligibility Restrictions

One of SNAP's strengths is that it is not limited to particular population subgroups but instead is largely available to low-income people based on their financial circumstances. Some low-income people, however, are not fully eligible for SNAP, which reduces its ability to meet need.

While several of SNAP's eligibility restrictions are worth revisiting, one in particular stands out. Childless unemployed adults face an overly harsh SNAP restriction. People aged 18 to 50 who are not raising minor children may receive SNAP benefits for only *3 months* (while they are not employed at least half time) out of every *3 years,* even if they have looked diligently for work but cannot find it. I encourage the Committee to consider moderating this overly harsh restriction.

Benefit Adequacy

While SNAP is a powerful response to poverty and food insecurity, the program's relatively modest benefits reduce its impact. The average SNAP *household* received about $287 a month in benefits in Fiscal Year 2010; the average *recipient* received about $134 a month, or about $1.50 per meal. Many researchers have questioned whether the benefits are sufficient to meet families' basic needs throughout the month, a question that the Institute of Medicine is now examining.

Moreover, recent research suggests that the Recovery Act's temporary boost in SNAP benefits contributed to improved food security of SNAP households between 2008 and 2009.

Ideally, the Committee would explore ways to improve SNAP benefits—either overall or for specific groups, such as senior and disabled households, as it did in 2008. At a minimum, the Committee should not reduce benefits.

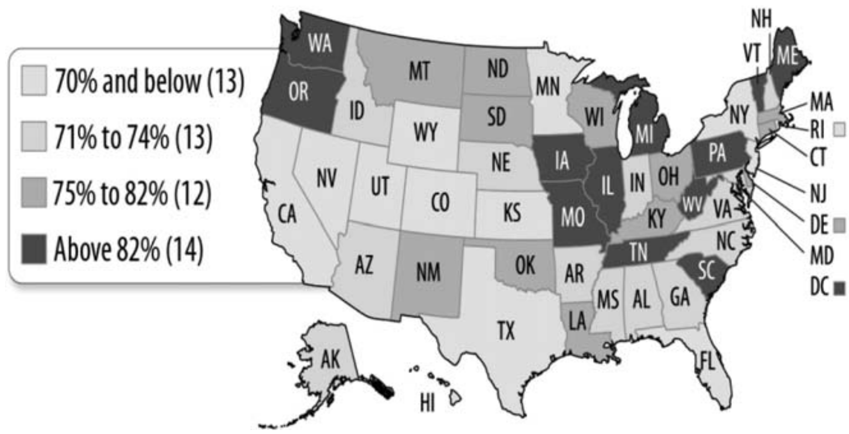
Program Access

SNAP does a good job of reaching eligible people. As noted, it reached 72 percent of all eligible individuals in a typical month in 2009 (the most recent year available). Participation rates have increased over the past decade, reflecting increased need, program simplification, improved enrollment policies, and expanded outreach efforts. Because the neediest individuals, who are eligible for larger benefits, participated at higher rate than other eligible persons, the 72 percent of eligible individuals who participated received 89 percent of the total benefit amount that would be provided if 100 percent of eligible individuals participated.

Yet SNAP does not reach all types of households equally well. While families with children participate at high rates, working families and seniors participate at relatively low rates.

- **Working families.** In 2009, some 60 percent of the eligible working poor participated. While participation among these families has improved in recent years, more could be done.
- **Seniors.** Eligible seniors, who face unique barriers in accessing and applying for benefits, are particularly under-served. Many low-income seniors who struggle to get by on small fixed incomes have unmet dietary needs but don't receive SNAP assistance. Just *35 percent* of eligible individuals over age 60 participated in 2008, though participation rates have increased modestly in recent years.

SNAP Participation Rates by State, 2009



Source: USDA, "Reaching Those in Need: State SNAP Participation Rates in 2009".

In addition, SNAP participation rates vary widely from state to state. (See chart: "SNAP Participation Rates by State, 2009.") Some states, such as Illinois, Maine, Missouri, Washington, and West Virginia, consistently serve a high percentage of eligible households (over 80 percent), while others serve a lower percentage (such as California, Delaware, Kansas, Texas, and Wyoming).

The Committee should look for further opportunities to streamline and simplify program rules in order to ease barriers that impede eligible households from participating and to make it easier for state agencies to serve these households. Possibilities include expanding outreach to under-served populations, better enabling poor households to apply for benefits (such as by providing more access to online and telephone services), and improving retention of eligible households at renewal. Households that participate in SNAP must reapply for their benefits after a fixed period of time, typically every 6 or 12 months. States have found that a significant share of eligible households don't complete the reapplication process by the state's deadline and are cut off; many of these households then file a new application, but this creates a gap in food assistance as well as more work for the state (since new applications are more time-consuming than renewals). Addressing this problem could improve participation rates, reduce administrative burdens on states, and reduce food insecurity among needy families.

Supporting States' Efforts to Strengthen Program Integrity and Access

Another important area worth exploring is the remarkable advances in state SNAP agencies' use of technology and innovative business practices, which have improved program efficiency as well as overall access to the program. Despite dramatic increases in their SNAP caseloads during the economic slump and fewer administrative resources with to manage their workloads (due to state budget cuts), a number of states have done an impressive job of meeting the increased need.

Some states have begun offering new options for applying for and renewing benefits—such as online applications, which roughly half of the states now offer—that enable low-income households to apply at times more convenient for them than traditional office hours (which often conflict with their work hours). This approach can improve access for working families and those in remote locations, where the nearest SNAP agency might be a long distance away. Online applications can also help streamline a SNAP agency's workload. Because online applications enable families to take care of some of the application process themselves, state staff have fewer data to enter in order to process applications. The same goes for other on-line tools. Families often have questions about the status of their case or need to report changes in their circumstances. Because responding to unscheduled inquires can distract eligibility staff trying to work through other cases, a number of states have sought to automate these functions. An increasing number of states offer online service tools that allow clients to report changes or check the status of their case.

States have developed other tools that can help to improve program integrity as well as access. For example, Utah has developed a tool that helps eligibility workers conduct data matches across a wide range of state and Federal databases (such as Motor Vehicles, State Vital Statistics, Social Security Administration, Child Support, Unemployment Insurance, state tax records, consumer credit checks, and other commercial databases). These databases help states verify the income (and other eligibility factors) that the household reports and detect instances where households may not have reported information accurately. Previously, eligibility workers needed to query each database separately, which could involve separate links, user names, and passwords for each match. The new software, known as "eFind," pools all the matches together for the worker within seconds, reducing processing delays and facilitating cross-program sharing of information as well as detection of errors and fraud. Helping states share these tools with other states, including exploring ways for the Federal Government to procure sound solutions one time *in lieu of* 50 states individually paying for technology tools that improve program integrity and access, should be a priority.

Separate from these technology tools, a number of states have also reconfigured and streamlined their staff business processes in order to handle increased workloads while reducing the amount of staff time it takes to determine eligibility and also increasing payment accuracy. These efforts can yield strong results for the program and its clients. While USDA makes a concerted effort to share best practices and technology tools across states, individual SNAP agencies are often left to figure out these modes of improvement on their own. I encourage the Committee to explore means to facilitate greater use of these practices.

In conclusion, I hope that policymakers will be able to step back from the usual type of Washington debates and political battles and consider what policies would be best for "the least among us." I urge you to follow the Hippocratic oath and "do no harm." And I also would ask you to adopt the Bowles-Simpson principle of protecting the disadvantaged and avoiding measures that would increase hunger, poverty and hardship in a nation as abundant as ours.

The CHAIRWOMAN. Thank you.
Mr. Blalock?

STATEMENT OF PHILIP A. BLALOCK, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF FARMERS MARKET NUTRITION PROGRAMS, ALEXANDRIA, VA

Mr. BLALOCK. Madam Chair and Members of the Committee, my name is Phil Blalock. I am the Executive Director of the National Association of Farmers Market Nutrition Programs. Our association represents most of the 36 states, and six Indian tribal organizations that operate WIC, Farmers Market Nutrition Programs and 51 Senior Farmers' Market Nutrition Programs. On behalf of these programs, the folks that operate them, the farmers that participate, and the recipients, I thank you for this opportunity.

These programs meet two very important objectives. They provide fresh produce to women, infants, children, and seniors by providing them benefits to buy fresh fruits and vegetables from small farmers who participate. And just as important, they increase income to small family farmers by increasing use and awareness of farmers markets, farm stands, and community-supported agriculture outlets. We have over 18,000 farmers that participate in the WIC FMNP program and 20,000 farmers that participate in the seniors' program. Members of our association have been operating these nutrition incentive programs since 1989.

I initiated the program in 1992 in North Carolina and spent the next 7 years developing it into a crucial market development tool to open new farmers' markets and stabilize old ones. FMNP programs are unique. They combine the nutritional and educational experience of the WIC and senior agencies with the farmer knowledge and training of the State Departments of Agriculture and Cooperative Extension Service. In the last several years, our programs have enhanced their training to include the new WIC fruit and vegetable vouchers as well as SNAP Electronic Benefit. This has been done by a combination of added resources from within state governments or by cooperative efforts with local community groups, food banks, and nonprofits.

In short, our programs provide the necessary infrastructure to all nutrition programs operating in farmers markets and other direct farm outlets on a statewide basis for most of the nation. We have tried to spread a broad net to address hunger in rural and urban areas across the nation with the limited resources given to us, but we have a lot of under-served areas left. With more resources, we can fill in the gaps that are left and spread that net to every county in the United States.

Last year, existing programs requested over $60 million for their programs with less than $40 million being available to small farmers and farm outlets. The last 5 years have seen dramatic changes in small farm participation in nutrition programs. We have learned that we need to change our approach to incorporate all nutrition programs into the scope of operations across all states. The rules have been prohibitive to combining resources and crossing program barriers has made for time inefficiencies and wasted energy.

We think recipients, farmers, and taxpayers would be better served by combining the programs into one and allowing the state level program deliverers to make the decisions necessary to move resources around to better serve their populations. This goes hand in hand with what farmers have told us. They would like to do away with the multitude of paperwork and processing that it takes to participate in the many programs. In a perfect world, they would go to one place, fill out one form, and participate in all programs. If we had a single source that farmers could go to sign up for all programs, it would make it much easier for everyone involved and farmers would be much more willing to participate. We proposed language that would accomplish this, and with some agreement from USDA, they seem willing to work with us on it.

The farmers market nutrition programs are nutrition incentive programs. That works for all of us. They give fresh fruits and vegetables to those who need it most. The programs are delivered efficiently using existing knowledge, education, and distribution infrastructure. This farm bill provides us with the opportunity to make these programs more efficient and the opportunity to expand into areas that have yet to be served. Once again I thank you.

[The prepared statement of Mr. Blalock follows:]

PREPARED STATEMENT OF PHILIP A. BLALOCK, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF FARMERS MARKET NUTRITION PROGRAMS, ALEXANDRIA, VA

Chairman Schmidt and Members of the Committee, thank you for giving our Association the opportunity to participate in this hearing on Farmers Markets and Nutrition Programs.

Madame Chairman, my name is Phil Blalock. I am the Executive Director of the National Association of Farmers Market Nutrition Programs. Our Association represents most of the 37 states, The District of Columbia, Guam, Puerto Rico and six Indian Tribal Organizations (ITOs) that operate WIC Farmers' Market Nutrition Programs and 51 Senior Farmers' Market Nutrition Programs.

These programs meet two very important objectives. They provide fresh produce to women, infants, children, and seniors by providing them benefits to buy fresh fruits and vegetables from small farmers who qualify and participate in the FMNP. They also increase income to small family farmers by increasing use and awareness of farmers markets.

Nationally, 2.15 million WIC clients buy locally grown fresh vegetables and fruits which are safe and healthy from more than 18,245 farmers at more than 3,647 community-based farmers markets, 2,772 farm stands, and CSAs (Community-Supported Agriculture Programs). The Senior FMNP provided 844,999 seniors with benefits that were used with 20,106 farmers in 4,601 farmers markets, 3,861 farm stands and 163 CSA's.

The last 5 years have seen dramatic changes in small farm participation in nutrition programs. The new food package in the WIC program has offered small farmers with another opportunity to help in the fight against hunger across the nation. There has also been a tremendous amount of interest and help from multiple groups in aiding farmers by increasing SNAP participation by small farmers. Since our programs provide the infrastructure across most of the states for delivery of nutrition programs into farmers markets we have found ourselves tasked to work across program differences by providing guidance and leadership to simplify the processes for farmers.

One of the remarkable things about our programs is their design. It has been our greatest asset and our greatest challenge. Our programs are all cooperative efforts. We take the expertise, eligibility and the distribution system of the WIC agencies as well as the senior programs and marry them with the farmer interaction with the Departments of Agriculture and Cooperative Extension. The asset is we don't create a bureaucracy or added administrative cost. We take the strengths of those agencies and make a new program. The downside is we create a new task for those agencies without a lot of administrative dollars. So you have to want to work a lot of hours for very little reward to operate an FMNP.

Our programs are more than just giving a recipient $20–$50 in coupons. They provide nutrition education, assistance when shopping at a farmers market, and help in how to prepare products when they return home. This is a big change from buying greasy fries and a burger, or buying something to pop into a microwave. Learning to shop for fresh vegetables and to prepare them takes time and effort; therefore, those of us who have the necessary knowledge must spend the time and energy to teach those who do not, whether young or old. The interaction that recipients have with the educators and the farmers provides the most effective tool in increasing fruit and vegetable consumption with low income beneficiaries. That makes us the perfect fit to help WIC and SNAP recipients get needed nutrition benefits.

WIC new fruit and vegetable benefit (CVV) use at farmers markets has been disappointing. We are working with several farmers market associations in numerous states to identify the issues with farmer participation. The problems range from states simply not allowing farmers to participate in the WIC CVV program to less drastic but onerous rules that are prohibitive of small producers operating as a WIC CVV vendor.

The biggest complaint that we have from farmers is the varying rules and multitudes of processes that they have to go through to participate in these programs. In a perfect world, they would go to one place, fill out one form and participate in all programs. We have created many of the problems ourselves with the segmentation of programs across different agencies BUT we also recognize these problems and have started the process to fix them. We have been working across the divisions in the Food Nutrition Services of the Department of Agriculture to break down the silos and simplify the processes. As in all attempts to change government programs it takes time, but we have found the Program Directors and their staff to be attentive and willing to work with us to address the issues. I think that they are looking for ways to simplify the process and flow of information as much as the farmers are.

The Food Nutrition Service has been exemplary in their effort to work "outside the box."

I would like to thank Congress for its continuing support for the WIC Farmers' Market Nutrition Program and the Seniors Farmers Market Nutrition Program. These are the only programs that provide direct benefits to small farmers and low income families with so little effort. Unlike a lot of government programs, neither is considered an entitlement program, a welfare program, or even a subsidy to large corporate farmers. The FMNPs provide fresh, locally grown fruits and vegetables to low-income women, children and the elderly, and they also provide much needed income to thousands of small family farmers. I don't need to remind this Committee that these farmers spend their dollars in their local communities, thus promoting local economic development. These programs are a win-win for the country.

Our programs have seen reduced funding due to budget constraints and other priorities. As state budgets have tightened, it has been increasingly more difficult to find the necessary dollars to provide the required 30 percent state match for the WIC FMNP program. We have even had states that have had very successful, established programs simply drop FMNP because they could not provide the match or the personnel.

Our states want to expand into areas that are currently not being served. They also want to cooperate with the other programs that are available to farmers. The only limitations have been the funds to take this program to every area and a few adjustments to the law. FNS data shows that states are requesting fifty-four percent more funding annually for WIC and Senior FMNPs than funds are available. And all the while, we are only serving very minimum number of recipients as evidenced by this very representative example: Washington State's program only serves 26% of eligible recipients in the WIC FMNP. Alabama, the fourth largest SFMNP, is only serving 23% of the eligible seniors. The states have requested additional funds; they have shown demand; FNS has documented it; the states have proven they have the methodology for delivery; it is now time for Congress to come to aid of women, children, seniors and small farmers.

We have offered a proposal that will consolidate these programs into one, making it easier for us to operate across program boundaries and to cooperate fully with other groups. It will also make it easier for the farmers to have access to all of the programs and still serve recipients effectively and efficiently. The concept is simple. We have been operating incentive programs for nutrition programs in farmers markets for more than 20 years. We want to leverage that existing infrastructure and knowledge to help deliver all nutrition programs to small farmers. To abandon it would be wasteful and irresponsible. We think that the State Departments of Agriculture and the State Health and Human Services Agencies are the only ones that will provide the stability and the continuity to end hunger in EVERY county in the United States. It is imperative that the democratically elected state agencies remain at the center of these efforts as they have a vested interest in the local economies and hunger needs.

We strongly encourage you to make legislative changes that strengthen and expand the Farmers Market Nutrition Programs. These recommended changes provide flexibility for the Secretary to move funds where there is more demand. The most important action that this change will create is the consolidation of programs for a more efficient and effective mechanism within the states local food regions. Our association stands ready to work with you and your staff and with USDA staff to make this happen.

Thank you for the opportunity to offer this testimony. I'll be happy to respond to your questions.

The CHAIRWOMAN. Thank you all very much.

I am going to start off by questioning Dr. Haskins. In your testimony you suggested four policy changes that would lead to savings. One of the ideas was changing the way the Low Income Housing Energy Assistance Program, LIHEAP, interacts with SNAP. Do you feel that these states that have been sending SNAP recipients nominal LIHEAP checks are going around the intent of the law? And could you give us your thoughts on how setting a minimum of LIHEAP payments of that $25 or $50 would affect participation by the states?

Dr. HASKINS. First of all, I didn't necessary recommend those changes; I just reviewed them as possibilities and the Committee has to save money, you have to consider all of the possibilities. Yes, I definitely think that states take advantage of rules. They always do that. I am not criticizing them for that but that is what they do. They have taken advantage of the LIHEAP rules and you could change the rules in a way that would make it difficult or maybe impossible.

But I would point out that with the actions that they have taken in many cases are administratively rational and they themselves save money. They save administrative money for the state and they save wear and tear on the individual because they don't have to bring all their bills and prove every penny of their bills. If there is one thing that makes recipients—drives them nuts it is having to bring all kinds of receipts and bills to show how much they spent or that they had spent it on a certain thing.

So it would save money. The CBO thinks it would save money. I think it would increase inefficiency but it would save money.

The CHAIRWOMAN. To follow up, if it increases inefficiency, then there might be an added cost to it. Is there a way around the inefficiency?

Dr. HASKINS. Well, the inefficiency is if you make people bring a lot of stubs to an office, or even if you have some arrangement where they can fax them in and you have the question, will people have access to fax and so forth. There are lots of technological ways you can make it less difficult but then the state has to have a record-keeping system. So there is just a lot of, I would call it, hassle and that costs money both because of the administrative costs but also the personnel who are doing it.

The CHAIRWOMAN. Do you feel, Doctor, that the reforms in the SNAP program can lead to savings that do not substantially affect benefits? Do you think that there are some reforms that could create a savings but not affect benefits?

Dr. HASKINS. I doubt it. I mean people are forever saying that we could save money on fraud and there is some fraud in SNAP, but I think as much as probably more than any other program. SNAP fraud has been reduced quite substantially. Having hung out with states for a long time and watched their procedures and been part of the Federal Government for many years, there is always going to be some fraud. You could not get rid of all of it. And the last amount will cost you more to get rid of than you will save if you get rid of it. SNAP may be approaching that point.

The situation that we are in financially in the Federal Government—I am definitely a budget hawk. I had a project at Brookings looking at ways to solve the deficit, and there is no way that we are going to be able to solve this problem without reducing the comfort of many, many millions of Americans. We have to do that and we will.

Ms. DEAN. May I add one quick point? Just to supplement what Dr. Haskins said: about 95 percent of Federal spending on this program is for benefits and it would be extremely difficult to achieve savings without compromising benefits for poor families or undermining program integrity efforts.

The CHAIRWOMAN. Along that line, Ms. Dean, in regard to the SNAP error rates, your testimony states that the net loss to the

Federal Government from errors was 2.3 percent. Can you put a dollar amount on that?

Ms. DEAN. Not at the tip of my tongue, Madam Chair.

The CHAIRWOMAN. But I bet you can get back to me.

Ms. DEAN. Absolutely.

[The information referred to is located on p. 2029.]

The CHAIRWOMAN. I would like to ask, Dr. Haskins, have you looked at the economic impact policies like broad based categorical eligibility has had on SNAP?

Dr. HASKINS. No.

The CHAIRWOMAN. Very good.

Mr. Bivens, we continue to hear the concerns from food banks across the country about reduced supplies, especially with USDA making fewer bonus purchases and I have been a little bit involved in my own food bank in Cincinnati. What are the options food banks face if or when they run out of commodities, and how do you handle this with your clients?

Mr. BIVENS. Well, we have very few options. The reality of it is more and more of our food supply is having to come from purchases all the time and obviously our own individual costs are going up. Food costs are going up, fuel costs are going up, and so our options are very limited. In many cases, some of our partner agencies have had to reduce their hours, reduce the amount of food they have given out, and it is creating additional burdens on the people that we are serving. So it is not a good situation right now. The food bank system in this country is absolutely being stretched to its limits.

The CHAIRWOMAN. Thank you. Ms. Pingree? Oh, I am sorry. Mr. Baca?

Mr. BACA. Thank you very much. I am still the Ranking Member.

Ms. PINGREE. Yes, you are. You came in late but you are still the Ranking Member.

Mr. BACA. Thank you, Madam Chair. Let me talk to Ms. Dean.

Thank you very much, Ms. Dean, for participating today in the hearing. You are well known for your working knowledge of the SNAP program and how it functions in each state. Can you tell us what you think of the proposal of the SNAP program, especially as it requires the model of 50 percent participation and working with Congressional Districts?

Ms. DEAN. I am sorry, Mr. Baca, could you——

Mr. BACA. In your testimony you talk about working with poor, those who have incomes yet still qualify for SNAP. These are the people that are of special concern for me in my district. And Dr. Haskins testified that modeling SNAP after the TANF model of 50 percent participant may be worth Congressional consideration. Can you tell me what you think of this proposal?

Ms. DEAN. Yes, sir. I apologize. When you said 50 percent I was thinking of California's participation rate, overall participation rate, which is another issue. But first, SNAP serves a far more diverse population than the TANF program. Two-thirds of participants in the program can't be expected to work. They are seniors, people with disabilities who typically are not on the TANF program, as well as children. And of those who remain there is——

Mr. BACA. That means that we have to take into consideration other people who can't work and yet qualify, right?

Ms. DEAN. Absolutely, sir. But of those who remain there is a substantial work effort. This is really important, worth noting. Then in 2010, almost 60 percent of SNAP families with non-disabled working age adults worked while they received SNAP. This was in a year when the economy was deteriorating rapidly. Jobs were hard to find and the overall unemployment rate was 9.7 percent. And when you go further back when the economy was more sound in the mid-2000s, we have done an analysis looking at SNAP participants both while on SNAP, the year before they were on and the year after. And the overwhelming majority were either working before they came onto the program, obviously lost their job and needed help, or quickly moved on to work in the next year.

So this is a solution in search of a problem that just doesn't exist. Working to reduce the deficit, building a large-scale new work program when we don't in fact have a problem with SNAP participants working is just the wrong solution for the wrong problem at the wrong time.

Mr. BACA. Okay. Can you give me your thoughts on how the $33 billion in cuts would affect jobs and how our economy recovers?

Ms. DEAN. Well, first and foremost it is important to say that every single—I presume you are talking about the Committee's recommendations——

Mr. BACA. Right.

Ms. DEAN.—for reconciliation. Every single participant in SNAP would see their benefits cut.

Mr. BACA. You know I am against the $33 billion cut?

Ms. DEAN. Yes, sir. Yes, sir.

Several million people would be cut from the program altogether. So when we remove purchasing power from low income families, they are less able to buy food, stores have less demand for their products, and the same is true for food manufacturers and farmers. So it does have an overall negative impact on the economy.

Mr. BACA. Okay. Mr. Blalock, how would farmers market feel the effects of the $33 billion in cuts to SNAP as proposed in the reconciliation bill that will be on the Floor this week?

Mr. BLALOCK. Well, it is very hard to say. It is not well documented how much SNAP benefits are used in farmers market nationwide. In Iowa there is about a million dollars worth of SNAP benefits used at farmers markets, so I would imagine we would see a proportionate cut to small farmers there and it would happen the same in all states.

Mr. BACA. Mr. Bivens, I am sure that you are aware that last month the House Agriculture Committee, as I just stated, passed a reconciliation plan that would cut $33 billion from SNAP. In your opinion, how would the food banks in Oklahoma be impacted by the decrease in SNAP benefit level and SNAP eligible recipients that this plan would cause?

Mr. BIVENS. Well, I would answer this way. The private food sector, including food banks as well as all of the other faith-based organizations we work with would be unable to meet that need. We are actually stretched to our limits already trying to keep up with the current demand. Over the last 4 years, demand has increased

30 to 40 percent on our food bank system. We have increased our distribution by 95 percent over the last 5 years. We simply can't keep up with that continued distribution. It is not sustainable. So if there are additional decreases in SNAP benefits to recipients, we would not be able to serve a lot of people in this country that need food on a day-to-day basis.

Mr. BACA. Okay, thank you. I know that my time has run out.

The CHAIRWOMAN. Thank you. We have been joined by the Chairman of the full Agriculture Committee, Chairman Lucas, from Oklahoma. Do you have anything to offer, any statement, questions, sir?

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. LUCAS. Madam Chairman, if I might be permitted to make a brief statement, and I do appreciate the indulgence of yourself and Ranking Member Baca for allowing me to do that. And I appreciate your efforts at holding today's hearing to review the specialty crop and nutrition programs as we prepare for the next farm bill.

Last June, the Committee started the farm bill process by holding 11 audit hearings focusing our attention on the U.S. Department of Agriculture to look for ways to improve programs for farmers, increase efficiency, and reduce spending. We then went out into the countryside this spring to hear directly from producers in the field and now the hearings that are taking place in Washington will round out the information gathering that is necessary in writing sound and effective farm policy.

It is important to consider a variety of prospects when writing comprehensive bipartisan legislation, and I am pleased that this Subcommittee is hearing from witnesses from across the country representing the nation's various important interests. The 2008 Farm Bill expanded our existing programs and established some new ones that have proven beneficial to specialty crop producers, research, pest and disease pressures, maintaining and opening international markets, and increasing consumption of the best fruits and vegetables in the world.

Given the wide variety of specialty crops grown in the different climates throughout the U.S., it is important that this sector of agriculture is largely united as the Specialty Crop Bill Alliance. Having their input on how these programs have been implemented and what changes need to be considered will only strengthen those programs in the future.

And I also appreciate each of our witnesses today representing the nutrition community. Nutrition accounts for almost 80 percent of our Committee's entire mandatory spending for the farm bill, and I know every Member of this Committee wants to ensure that every dollar is spent as wisely and as effectively as possible.

And I am, of course, pleased to have Rodney Bivens from the Regional Food Bank of Oklahoma here today. I have worked with food banks across the country. It is a tremendous example of how the public-private partnership can benefit those in need. The Regional Food Bank, together with the Community Food Bank of Eastern Oklahoma, provide food to more than 1,250 programs and schools.

Oklahoma's food banks distributed 63 million pounds of food in Fiscal Year 2011, nearly double the amount, as was noted in an answer to a question a moment ago, since 2007. We all know the extreme demand placed on food banks in recent years and we applaud the work of all food banks as they strive to meet the increasing demands of emergency food assistance.

Again, I want to thank all the witnesses for sharing their valuable insights today. The road ahead of us won't be easy but I am confident that by working together we can craft a farm bill that continues to support the success story that is American agriculture.

And once again to the Chairwoman and the Ranking Member, I laud you for the work that you have engaged in in this session of Congress. I know that together we will do the best we possibly can in crafting a farm bill that meets the needs of all Americans.

And with that, Madam Chairman, I yield back my time.

The CHAIRWOMAN. Thank you, Mr. Chairman. And thanks to the working cooperation on this side of the aisle.

Mr. Sablan, I know that you have to leave and so I am going to allow you to go next.

Mr. SABLAN. Thank you very much, Madam Chair.

Good afternoon and thank you, everyone, also for the courtesy. I need to be at another hearing that just started.

Any Federal program of the size and scope of Supplemental Nutrition Assistance Program must constantly be monitored to make sure it is efficient, free of abuse, and reaching the people it is intended to help. I have to say, however, that the discussions seem academic to me when the people I represent do not have access to SNAP. What we hear about block grant each year that is supposed to be the equivalent of SNAP but in fact only provides ½ and sometimes less than ½ the assistance that SNAP would. In fact, the local government and the Department of Agriculture do such a poor job of negotiating that grant that just last week for the second year in a row benefits have to be cut at a place where GDP has increased every year since 2005, where minimum wages are at $5.05 an hour, where gasoline on one island is over $6 a gallon, and where electricity is about 42¢ a kilowatt hour.

So food must be imported and shipped over long distances. It is expensive in our islands. Yet for some 10,000 people about 20 percent of the entire population are now forced to get by on $3.64 per day for food. I have tried doing this and I plan to do it again. I can tell you that living on this little money to feed oneself is not healthy and very, very unpleasant.

I have been working to get more food aid to the people since the day I arrived here in 2009. Secretary Vilsack provided a 13.6 percent increase that year to match the increase in the Recovery Act that other Americans received. Last year, I recall another $1 million added to the Fiscal Year 2012 block grant. But the fact is this piecemeal approach, trying to fix a block grant system that simply cannot adjust to changing need is not working. If it were working, benefits would not have been cut last week.

So I have also introduced legislation, H.R. 1465, the AYUDA Act, which includes the Northern Mariana in SNAP. Being included in SNAP will give the Americans I represent the same access to food assistance as other Americans receive. Being included in SNAP will make the system more efficient and will reduce fraud. Being included in SNAP will mean that as economic circumstances change in the Marianas, Federal expenditures will go up or go down in response replacing this zombie block grant program that operates oblivious to economic realities.

Regarding the need to reduce fraud, an issue that we are all most concerned with, I would remind the Subcommittee that when the Northern Mariana's Governor met U.S. Department of Agriculture officials here in Washington in February, he told them that fraud is occurring in the system he administers. Chairwoman Schmidt, Ranking Member Baca, Representative Pingree and myself sent a formal request asking the Department to investigate but we have received no response.

We have also received reports that the block grant program has been administered in the Northern Marianas in a manner that is in violation of the requirements of civil rights policy. The only response I have received from the Department on this is that the local operations manual will be rewritten to say that such violations are prohibited which checks the bureaucratic box but does not make whole those who did not receive the food assistance they were entitled to.

What is even more frustrating to me about this situation is the Secretary of Agriculture already has the statutory authority to extend SNAP to the Northern Mariana Islands. He could give my constituents the same assistance other Americans receive if he chose to do so. He could exercise greater management control to ensure that the reports of fraud and civil rights violations are addressed effectively.

Last summer in an open hearing of the Nutrition Subcommittee, Department officials promised we will work with you on my goal to bring Northern Marianas into SNAP. As I mentioned, the Department did provide an additional $1 million for the block grant for this fiscal year but that wasn't sufficient to keep benefits from being cut.

What weighs on me each and every day is that hundreds of families I represent have to choose whether to pay their utility bills so their kids can have lights and electricity to do their homework or fuel their cars with very expensive gasoline to get to work, or put sufficient and nutritionally adequate food on the table. This should not be.

SNAP has proven its value. It has longstanding bipartisan support because it is a program that works, responsive in times of need helping the most vulnerable and lifting people out of poverty. Yes, we need to find ways to reduce our government deficit. The SNAP expenditures will decline in the years ahead as the economy continues its recovery. In the meantime, we need to continue helping those Americans who need our help, including those who life in Northern Mariana Islands.

And I thank you very much for the opportunity, Madam Chair.

The CHAIRWOMAN. Thank you.

Chairman Lucas, do you have any questions.

Mr. LUCAS. Thank you, Madam Chairman, just if you would recognize me for a couple of quick questions.

Mr. Bivens, TEFAP enjoys a very wide bipartisan support and is a great example of the public-private partnership and how it can assist low income households. Could you elaborate on your food bank's efforts to engage those private entities to donate to the food bank, and how you build those vital relationships and enable you to serve the need? Because after all, if you didn't have that relationship, there would be no resources.

Mr. BIVENS. You are talking about the private food industry?

Mr. LUCAS. How you have engaged them and how you have developed those relationships on an ongoing basis.

Mr. BIVENS. Well, we have two full-time people engage the food industry in the State of Oklahoma and they have been extremely, extremely gracious in their generosity to the food bank. But like all industries, they are underneath a huge amount of pressure to improve their efficiencies and effectiveness. What we have seen over the last 10 to 15 years is the amount of private donations coming from the private industries is declined or at best remaining flat. And that is because they have improved their efficiencies, they have improved their packaging. Like everything else, they are determined to improve their bottom line. They are not in business to make donations to food banks. They are in business to make a dollar and profit like everyone else. While we do appreciate everything they do for us, they are under an immense amount of pressure also.

Mr. LUCAS. Absolutely.

Mr. Bivens, Dr. Haskins, Ms. Dean, if any of you would care to respond, we on the Committee have to contend with a lot of newspaper reports about fraud and abuse within SNAP and especially how it relates to both participant and retail trafficking. Do you have any suggestions about what USDA may need to do further to prevent, stop, prosecute those found intentionally violating the programs? Just your observations, your experiences, if you would please.

Dr. HASKINS. Well, the Department over the years has improved greatly and the electronic benefit card has made a real difference. Fraud used to be much higher than it is now. And we discussed this a little bit before you came in but you get to a point where you are spending money to stamp out fraud, and because there is so little of it relative to what exists in the past, you wind up spending more money to get rid of what is left than you save. I don't know if the Department is at that point.

I don't have specific suggestions but it is an admirable record and prosecutions are always in order. If people commit fraud against the Federal Government by misusing food stamps, then they should be prosecuted. I think that is probably one of the best deterrents.

Ms. DEAN. Mr. Chairman, thank you. I agree with Dr. Haskins. The Department and the program's track record overall with respect to fraud and trafficking is very good. It has been on the decline and so they are in search of an ever-dwindling problem but of course an ever-changing problem. The individuals who defraud the program change their tactics and USDA has to stay up on top of that.

I think the Senate Committee-passed farm bill included a couple of provisions that would help increase USDA's tools. One was some additional funding for them to invest in tools, for example, to do data mining and tracking of redemption patterns at retailers so that they can identify retailers or clients where they suspect fraud.

So, more tools to help them identify, investigate, and enforce the problem makes a lot of sense. The penalties are very severe for trafficking as they should be, but I do believe that more can be done. I do think that it is also important that we try to find a way to share the facts of the program with the public because they do tell a better story than often we read about in the media.

Mr. BIVENS. I would tend to agree with that. I think what has happened is the tracking program needs to be in place and whether abuse is taking place at the retailer. If you get those bumps where there are more food stamps coming through that particular location, it would give the opportunity for USDA to look at that particular situation. They simply don't have the tools to be able to do that across the country now. Now, I think that problem really happens at that retail level, not at the recipient level.

Mr. LUCAS. So it is a fair statement to say that enforcement is critically important, then we have to have examples of why everyone should comply with the law and that let us face it, when you are gaming the system, you are hurting poor people. Whoever is manipulating the process, you are hurting the needy by casting doubt on the whole entire effort.

Dr. HASKINS. I agree with that. Could I add something real quickly?

Mr. LUCAS. Please.

Dr. HASKINS. I think there is no question it is a bipartisan basis so the Republicans and Democrats on the Committee should work with the Government Accountability Office which specializes in things like this. They should be instructed to meet with the Department and see if they can come up with a plan for how they could further reduce fraud, make an estimate how much it costs, and give you reasons why they think it would work. Then have them meet with you or your staff and make suggestions about how they could do this with an emphasis on evidence of why they think it would work. And if you think it would, try to get the money to do it.

Mr. LUCAS. Thank you, Doctor.

With that, my time has expired.

Mr. BACA. You know, I agree with what has been said if you yield to me.

Mr. LUCAS. Of course.

Mr. BACA. But I don't believe that is why the solution is just to cut $33 billion from the SNAP program. Look at other avenues as how we can be cost effective and come with a solution and not impact many of the people who need to put food on the table.

Mr. LUCAS. The Ranking Member makes a very valid point but it is a part of the overall equation, maintaining the confidence of the general public in all Federal programs.

With that, I yield back my time. Thank you, Madam Chair.

The CHAIRWOMAN. Thank you.

Ms. Pingree?

Ms. PINGREE. I am happy to yield my time. I am just going to say one thing because I know we have to hurry for votes. Mr. McGovern has a lot to say and I want to make sure he is included before we adjourn.

But again I want to just quickly thank the panel for being here today and say that I concur with many of my colleagues that I was deeply concerned about the amount of cuts that were proposed. I thought Dr. Haskins made a good point this is countercyclical and we are in a time of great need and high unemployment, certainly a huge concern in my state. And I am also very supportive of the programs that allow people to access more healthy and fresh foods at farmers markets and our seniors and there are really some great innovations out there, education programs for people. These are critically important and thank you, too, for everyone who works in food banks. I am sorry they are so strained and stressed in these days.

And with that I will yield everything and more to my colleague from Massachusetts.

The CHAIRWOMAN. Mr. McGovern, you get the full 5 minutes.

Mr. MCGOVERN. You are very nice. And again I thank you, Madam Chair, for giving me the opportunity to sit on this panel. I am the very last person on this Committee. I sit in the very last seat way down there and I am new to this Committee and I am a little bit confused by this process. You know, we have this great panel here and to the best of my recollection nobody here is saying that you can find significant savings by cutting SNAP benefits. In fact, you all testified to the fact that it is one of the most efficient programs that we have that is actually working. It is keeping people out of poverty.

And it seems to me that this very panel we should have had a few weeks ago before we actually took action in this Committee on cutting $33 billion out of the program. It seems to me that we probably should have a lot more hearings on this to help educate all of my colleagues on both sides of the aisle about the benefits of this program. I think we have had two hearings on SNAP compared to ten hearings on Dodd-Frank. I think this is a vitally important program.

Mr. Bivens, you talked about hunger in America. That should be discussed more in this Committee and the fact that so many people in this country are hungry is something we all should be ashamed about. But I just want to ask, I mean, can anybody here explain how we can cut SNAP without reducing the amount of food that a poor person would receive? Is there any way to do that?

Mr. BIVENS. I wish I had a magic bullet that I could tell you that, but that $33 billion represents faces of the hungry and somebody will go without food if you make those drastic cuts. It is inevitable, especially in the downturn of our economy when SNAP benefits really, really help a lot of people. And as the economy improves, more and more people go off the SNAP program because they have good-paying jobs and they no longer need the benefits. We are at a time right now we can't afford to reduce benefits to SNAP recipients.

Ms. DEAN. And if I can just respond, again, the Committee has already experienced how extremely difficult it is to cut SNAP without impacting benefits. As I said before, almost 95 percent of Federal SNAP spending goes towards benefits to households for purchasing food. These are very low income households and most of the rest goes to Federal and state administrative costs associated with operating the program. So reviews to figure out who is eligible, anti-fraud activities that the Chairman just talked to us are so important, employment and training, monitoring of retailers. So cuts to those activities, of course, compromise basic oversight.

Mr. MCGOVERN. We have heard a lot about LIHEAP and categorical eligibility. I just want to ask a question. I mean that doesn't mean that people would receive SNAP who aren't eligible for SNAP, does it?

Ms. DEAN. No.

Mr. MCGOVERN. Right?

Ms. DEAN. No, sir.

Mr. MCGOVERN. I think there is a misunderstanding that somehow that people are getting a benefit that they are not entitled to. I mean they only get SNAP if they are eligible for SNAP. And if anything, by making the process more cumbersome, I guess you could argue that you might find savings by making it more difficult for people to access the food that they need for their families, but that is basically denying the people a benefit that they are entitled to.

Ms. DEAN. Right. Obviously, placing barriers to eligible people participating in the program would result in savings. But an option like categorical eligibility both gives states the option to tailor eligibility rules to adopt some less restrictive rules—I should be clear about that—to open up the program's more unemployed people, for example, or individuals with modest savings. But it also represents a significant simplification.

Dr. HASKINS. I don't think it necessarily means that they lose benefits that they deserve or they are entitled to; I think it means that you put more emphasis on things that they have to do in order to get the benefit, for example, show all their bills. And it is inconvenient and some people decide they are not going to do that, especially since it doesn't mean that they will lose their whole benefit; they just lose the excess deduction.

Mr. MCGOVERN. And Mr. Bivens, to those who say that food banks and charitable organizations could pick up the slack, the food banks in Massachusetts that I talked to, they are at capacity and they are desperately in need of more food because the demand is so great. I would be curious to how you would respond to someone who said, well, if we make some of these cutbacks, food banks and charitable organizations could pick up the slack.

Mr. BIVENS. Well, I think you summarized it quite adequately. The charitable food distribution systems in this country primarily made up of food banks and the faith-based community simply does not have the wherewithal to pick up the difference. Like I have mentioned in my testimony earlier, we have increased our distribution by 95 percent in the last 5 years, last year, 46.2 million pounds of food. We are going to be down probably ten percent this year because of the TEFAP cutbacks. We are anticipating probably that is going to continue over the next several years if those aren't restored, and that means somebody is going with a lot less food.

Mr. McGOVERN. And let me just make one last point. I want to point out that the Gang of Six and the Simpson-Bowles Commission both did not recommend any cuts in SNAP. They do not see this as a way to find deficit reduction or to reduce our debt and I think that they are right on that. This is the wrong way to go. And as I said earlier with the first panel, there is a cost to hunger in America in avoidable healthcare costs, in kids who don't learn in school, in lost productivity. So the idea when people say we can't afford to invest in this, my response is you can't afford not to because the cost is great and we see it all across the country.

And I don't know if anybody wants to—Ms. Dean, do you want to——

The CHAIRWOMAN. I think we are actually out of time.

Mr. McGOVERN. I thank you very much for your testimony.

Thank you, Madam Chair.

The CHAIRWOMAN. Thank you.

And I want to thank this panel and the previous panel for coming here and giving us some very insightful information on a very important subject.

And under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member. This hearing of the Subcommittee on Nutrition and Horticulture—yes?

Mr. BACA. Madam Chair, before you adjourn, one of the other comments that I want to mention—and I know that we were talking about—there is actually a higher need right now in terms of the SNAP program. There are 46.3 million people now in need. The impact reconciliation is going to have on our lunch program on a lot of our kids is very important. When you look at a lot of our students who are still going hungry, there is a need. And that is why with the $33 billion cutback, we should look at the impact it is going to have on a lot of our children who actually need the SNAP program and the assistance in the lunch program. I just wanted to stress that but I do appreciate the panelists coming in.

The CHAIRWOMAN. Thank you. It is a very important discussion. And with that, the Subcommittee is adjourned.

[Whereupon, at 1:38 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY STACY DEAN, VICE PRESIDENT FOR FOOD ASSISTANCE POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

During the May 8, 2012 hearing entitled, *Formulation of the 2012 Farm Bill (Specialty Crop and Nutrition Programs)*, a request for information was made to Stacy Dean. The following is her information submission for the record.

Insert

> The CHAIRWOMAN. Along that line, Ms. Dean, in regard to the SNAP error rates, your testimony states that the net loss to the Federal Government from errors was 2.3 percent. Can you put a dollar amount on that?
> Ms. DEAN. Not at the tip of my tongue, Madam Chair.
> The CHAIRWOMAN. But I bet you can get back to me.
> Ms. DEAN. Absolutely.

Using the FY10 QC figure for net loss of 2.3% and applying it to USDA's reported FY10 benefit issuance from the FY13 budget, the net loss in FY10 was *$1.487 billion.*

SUBMITTED STATEMENT BY KRAIG R. NAASZ, PRESIDENT & CHIEF EXECUTIVE OFFICER, AMERICAN FROZEN FOOD INSTITUTE

Chairman Lucas, Ranking Member Peterson and Members of the Committee, I am pleased to submit this testimony regarding the 2012 Farm Bill on behalf of the American Frozen Food Institute (AFFI), and its more than 500 members. AFFI is the sole national trade association representing every sector of the $70 billion frozen food industry, including food producers, growers, shippers and warehouses.

AFFI serves the frozen food industry by advocating its interests in Washington, D.C., and communicating the value of frozen food products to the public. As a member-driven association, AFFI exists to advance the frozen food industry's agenda in the 21st century.

The U.S. Department of Agriculture's (USDA) recently updated *Dietary Guidelines for Americans* ("guidelines") recommend increased fruit and vegetable intake.[1] The farm bill provides many opportunities to promote increased domestic production of fruits and vegetables and enable Americans to increase fruit and vegetable consumption. To meet this goal, AFFI believes U.S. farm policy should encourage the domestic production of fruits and vegetables and the consumption of fruits and vegetables in all forms (frozen, canned, dried or fresh). We applaud the policy position endorsed in the last farm bill that fruits and vegetables purchased for schools and service institutions "may be in frozen, canned, dried, or fresh form."[2]

To promote greater consumption of fruits and vegetables by all Americans, AFFI recommends the Committee adopt the following policies: (1) remove restrictions on production of fruits and vegetables for processing on program acres; (2) encourage the consumption of domestically produced fruits and vegetables by promoting all forms through USDA nutrition programs; and (3) ensure consumers participating in Federal nutrition programs can choose how best to address individual and family nutrition.

Planting Flexibility

As you know, to receive Federal subsidies for growing certain crops, producers were prohibited from growing fruits and vegetables on all program acres in the 2002 Farm Bill. The limitation was put in place to ensure program crop producers were not given a competitive advantage over producers who did not receive Federal subsidies and who exclusively grew fruits and vegetables for the fresh produce market. This prohibition became highly problematic when soybeans were categorized as a program crop for food processors and producers in the Midwest who wanted to grow fruit and vegetables for processing.

In response to this problem, the 2008 Farm Bill authorized the creation of the Planting Transferability Pilot Program (Farm Flex).[3] The pilot program allows program crop producers in seven states (Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio and Wisconsin) to apply for approval to plant selected fruit and vegetables for processing on base acres without forfeiting government payments on their remain-

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[1] U.S. Department of Agriculture and U.S. Department of Health and Human Services. *Dietary Guidelines for Americans, 2010.* 7th Edition, Washington, D.C.: U.S. Government Printing Office, December 2010.
[2] Farm, Nutrition, and Bio-energy Act of 2008.
[3] Farm, Nutrition, and Bio-energy Act of 2008.

ing base acres. Processing vegetables eligible for Farm Flex include cucumbers, green peas, lima beans, pumpkins, snap beans, sweet corn and tomatoes.

The program has allowed producers to have flexibility to meet modest demand for increased fruit and vegetable production for processing, enhanced access to consumers for U.S. grown fruits and vegetables and diversified the income of Midwest farmers. While modest in size and regionally restricted, the program has allowed U.S. food makers, particularly those in the Midwest, to source locally, decreasing transportation costs.

The Farm Flex pilot program has shown a demonstrated benefit to American farmers, food producers and consumers by incentivizing the local production of fruits and vegetables. USDA's Economic Research Service, in a 2011 study of the program, found the pilot was successful on all criteria as it "entices a very modest increase in processing vegetables production and a very modest decline in processing vegetable prices." The study further found the pilot did not have an impact on the fresh fruit and vegetable market.

AFFI supports the "Farming Flexibility Act of 2011" (H.R. 2675), introduced by Reps. Reid Ribble (R-Wisc.), Tim Walz (D-Minn.), Mike Pence (R-Ind.) and Tammy Baldwin (D-Wisc.), and companion legislation in the Senate (S. 1427) introduced by Sen. Richard Lugar (R-Ind.). The bills would extend Farm Flex and remove planting limitations. The 2012 Farm Bill should either eliminate the prohibition on fruit and vegetable planting on program acres, or make the Farm Flex program national and permanent.

AFFI recognizes that the future of the commodity programs could greatly impact acreage availability for the production of fruits and vegetables. For example, the Senate Agriculture Committee's current version of the 2012 Farm Bill does not extend restrictions on the production of fruit and vegetables on program acres. While we understand issues remain to be addressed with the commodity program sections of the bill as drafted by the Senate Agriculture Committee, we support the end of fruit and vegetable production restrictions.

Support All Forms of Fruits and Vegetables

AFFI believes USDA's nutrition programs must purchase food mindful of the shrinking purchasing power of the dollar without compromising nutritional value or safety. Frozen fruits and vegetables can help USDA meet this challenge. AFFI commends Congress for directing USDA not to discriminate between vegetables in writing new guidelines for school meal nutrition standards.[4] AFFI believes that all forms of fruits and vegetables, including frozen, should be utilized and encouraged to meet the USDA guidelines' recommendation for fruit and vegetable consumption.

Section 32 has been included in the farm bill since 1935 as a dedicated fund of approximately 30 percent of annual customs receipts collected that are directed to support the U.S. farm sector through a variety of activities. Most of the monies are transferred to USDA for the purchase of meats, poultry, fruits, vegetables and fish, including frozen products, which are diverted to school lunch and other domestic food programs. The program includes a budget of nearly $6 billion and is administered by USDA's Agriculture Marketing Service (AMS). The funds of interest to AFFI members are those Section 32 monies used to purchase non-price-supported commodities directly from the market place for use in schools and other domestic feeding programs. Approximately $614 million of Section 32 funds were spent on fruit and vegetable purchases during fiscal year 2010 and nearly 16 percent of that was spent on frozen fruit and vegetables.

AFFI worked to support Section 32 funding during consideration of the last farm bill and applauded provisions that clarified that foods purchased for schools and service institution "may be frozen, canned, dried or flesh form."

Frozen fruits and vegetables are nutritionally equivalent, and in some cases, superior, to their raw counterparts. In 1998, the U.S. Food and Drug Administration (FDA) ruled that frozen and fresh produce should be treated similarly in terms of the use of a "healthy" label.[5] Further, the study found ". . . single ingredient frozen fruits and vegetables are nutritionally the same as raw fruits and vegetables. Moreover, these foods can contribute significantly to a healthy diet and to achieving compliance with dietary guidelines."[6]

The 2008 Farm Bill spelled out more explicitly how USDA is to use Section 32 funds, and required new higher minimum levels of fruit, vegetable and nut purchases (in fresh, frozen, canned or dried forms) to support domestic nutrition programs. A separate section in the 2008 Farm Bill delineates how USDA is to allocate

[4] *P.L. 112–55, Consolidated and Further Continuing Appropriations Act, 2012.*
[5] 63 *Fed. Reg.* 14349 (March 25, 1998).
[6] 63 *Fed. Reg.* 14351 (March 25, 1998).

the annual Section 32 appropriation—in order to cover the cost of fresh fruit and vegetable purchases for USDA's Fresh Fruit and Vegetable Program.[7]

Although many think fresh fruits and vegetables are nutritionally superior to frozen counterparts, this is not the case. Several studies show that frozen fruits and vegetables are at least as nutritive as fresh, and in particular cases, can retain nutrients better than fresh.[8] In contrast to frozen fruits and vegetables, fresh versions can be subject to a good deal of nutrient degradation before being consumed.[9] The nutritional equivalence of frozen fruits and vegetables is also recognized by the USDA's National Nutrient Database for Standard Reference.[10]

The Fresh Fruit and Vegetable Program makes fruit and vegetable snacks available at no cost to children in participating schools, but does not allow schools to purchase frozen fruits or vegetables, even though frozen fruits and vegetables are allowed in other USDA feeding programs.

The program began in 2002 as a pilot in a small number of schools. It was made permanent and expanded to cover selected schools in all 50 states, as part of the 2008 Farm Bill. The program, with an authorized budget of $150 million, is funded using Section 32 monies, and is operated by USDA's Food and Nutrition Service independent of the school lunch and breakfast programs. It is available in schools in which a high proportion of students are eligible to receive free or reduced-price school meals.

The intent of the program is to provide another opportunity to expose elementary school children to fruits and vegetables during the school day. Despite a large body of evidence stating that frozen fruits and vegetables have been found to be nutritionally equivalent and, in some cases, superior to their fresh counterparts, frozen fruits and vegetables (as well as canned and dried fruits and vegetables) currently are excluded from the program.

Allowing frozen fruits and vegetables to be offered as part of the program provides school nutritionists with an affordable option for increasing the variety of healthy produce schools can offer, thus furthering the program's ability to promote improved childhood nutrition. The national organization representing the school nutrition community, the School Nutrition Association (SNA), when discussing the changes to the new school meal pattern commented on the logistical and operational difficulties of managing a program that focuses only on increasing consumption of fresh raw produce. "SNA recommends that the Department take into account the impact of increasing fruits and vegetables on rural areas and states such as Alaska where there could be challenges on the true availability of 'fresh' produce as well as the price fluctuations, variety and products availability during the winter months."[11] Similarly, SNA expresses support for USDA's promotion of consumption of all forms of fruits and vegetables, "the Association supports those requirements outlined in the proposed regulation recognizing the availability and utilization of fruits and vegetables in all forms . . . ."[12]

As well, school nutritionist organizations serving the children most in need across the country value the importance of the fruit and vegetable snack program and want to preserve the program's continued utility and integrity by allowing it to be expanded. AFFI would like to include with our testimony a letter from the California School Nutrition Association, which recently wrote to USDA urging the program be expanded to all forms of fruits and vegetables. Its letter states it best, "There is strong evidence that canned, frozen and dried fruits and vegetables are as nutritious as fresh produce. When available, fresh produce is frequently more costly. This impacts schools as well as families. With lower costs, more fruits and vegetables can be offered to more children. Canned, frozen and dried fruits and vegetables provide more consistent and reliable products."

Consistent with the concerns and needs expressed from school nutritionists who know our Federal feeding programs best, USDA's dietary guidelines and FDA proclamations, as well as numerous scientific studies, AFFI recommends that Congress continue its support for funding the purchase of fruits and vegetables in all forms

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[7] *Farm, Nutrition, and Bio-energy Act of 2008.*

[8] Joy C. Rickman *et al, Review: Nutritional Comparison of Fresh, Frozen, and Canned Fruits and Vegetables, Part I: Vitamins C and B and Phenolic Compounds,* J. SCI. FOOD AGRIC. (in press).

[9] Dianne M. Barrett, *Maximizing the Nutritional Value of Fruits and Vegetables,* FOOD TECHNOLOGY (April 2007)

[10] USDA, Agricultural Research Service, National Nutrient Database for Standard Reference, Release 24 (2011), *http://www.ars.usda.gov/ba/bhnrc/ndl.*

[11] School Nutritionists Association comments regarding *Nutrition Standards in the National School Lunch and School Breakfast Programs,* Docket ID: FNS–2007–0038.

[12] School Nutritionists Association comments regarding *Nutrition Standards in the National School Lunch and School Breakfast Programs,* Docket ID: FNS–2007–0038.

by supporting the inclusion of all forms of fruits and vegetables be included in all Federal feeding programs, including USDA's Fresh Fruit and Vegetable Program.

AFFI applauds the efforts of Rep. Marcia Fudge (D-Ohio) of this Committee and the over 25 cosponsors of the "Let's Grow Act" (H.R. 4351). Rep. Fudge's focuses on addressing the nutritional needs of our most vulnerable communities and schools by including expanding the USDA's Fresh Fruit and Vegetable Program to purchase fruits and vegetables in all forms as part of the solution.

Food Choice Empowers Consumers

The Supplemental Nutrition Assistance Program (SNAP), previously known as food stamps, provides assistance to low- and no-income individuals and families living in the U.S. The number of Americans receiving food stamps reached 45 million in May 2011. As of June 2009, the average monthly benefit was $133.12 per person, translating to approximately $1.40 per meal. Recipients can purchase any prepackaged edible foods, but are prohibited from purchasing alcohol, tobacco and heated prepared foods. According to the National Food Consumption Survey, individuals in food stamp households do not differ significantly from those living in non-recipient households in the nutritional quality of food consumed.

The 2008 Farm Bill increased benefit levels for SNAP, but Congress rejected restricting certain foods from being purchased during deliberation on that bill, maintaining an existing clear distinction between food items that can and cannot be purchased with SNAP benefits. However, while Congressional attempts to create a list of prohibited SNAP foods during the debate of the 2008 Farm Bill failed, the bill did reauthorize nutrition education targeted to SNAP-eligible individuals and funded new research, the Healthy Incentives Pilot (HIP), to test the use of incentives to encourage nutritious SNAP consumer choices.

USDA has awarded $20 million for a HIP research demonstration pilot in Massachusetts, which will attempt to apply the double-voucher theory—extra money for "healthy foods" spent on fruits and vegetable including fresh, frozen, canned or dried. Results of this pilot may prove that such incentives are beneficial to increase fruit and vegetable consumption, per USDA's dietary guidelines.

At a time when so many Americans need the assistance available through SNAP, it is more important than ever that policies promote adequacy and access, not introduce unwise program complexities for administrators and retailers or stigmatize low income families by limiting purchasing decisions. We believe Congress should focus on adopting positive approaches for tackling the challenge of improving nutrition, including ensuring families have access to resources to obtain nutrition education and a wide variety of foods.

AFFI urges the Committee to protect SNAP choice and ensure any changes to the program in the 2012 Farm Bill focus on benefit access and adequacy.

Conclusion

On behalf of AFFI's more than 500 members, thank you for consideration of our testimony. The frozen food industry prides itself on a history of innovation to produce food that maximizes nutrition and convenience, while minimizing costs. In keeping with the recommendations of USDA's dietary guidelines, AFFI recommends that the Committee draft a 2012 Farm Bill that supports increased domestic production and consumption of fruits and vegetables. AFFI and the frozen food industry look forward to working with the Committee to maximize the benefit of farm bill programs in providing nutritious food for domestic feeding programs.

ATTACHMENT

April 3, 2012

JULIE BREWER,
Chief,
Policy and Program Development Branch, Child Nutrition Division, Food and Nutrition Service,
United States Department of Agriculture,
Alexandria, VA.

Dear Ms. Brewer:

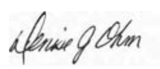
The California School Nutrition Association (CSNA) appreciates the opportunity to comment on USDA's Fresh Fruit and Vegetable Program (FFVP). CSNA supports the FFVP, and we know that students in schools that offer the program consume more fruits and vegetables than students who don't. These students are exposed to a wider variety of items, which further expands their experience and tastes. However, we are concerned about the limitations of the program when it only allows fresh items. There are several reasons for our concerns.

- The FFVP is targeted to at-risk schools. In many of these neighborhoods, there is limited access to low-cost fresh produce, so the children cannot replicate when at they learn in school when they get home.
- There is strong evidence the canned, frozen and dried fruits and vegetables are as nutritious as fresh produce.
- When available, fresh produce is frequently more costly. This impacts schools as well as families. With lower costs, more fruits and vegetables can be offered to more children.
- Canned, frozen and dried fruits and vegetables provide more consistent and reliable products.
- The emphasis on fresh fruit as the form of choice gives the perception that schools serving equally nutritious forms of canned, dried or frozen are serving nutritionally inferior products which may not be the case.

Therefore, CSNA recommends that the FFVP rules be changed to allow fruits and vegetables in all forms.

We appreciate the opportunity to offer our thoughts on the FFVP rule and CSNA is committed to offering the students in California a wide variety of nutritious food in all programs.

Sincerely,



DENISE OHM, *CSNA President.*

SUBMITTED STATEMENT BY SHARE OUR STRENGTH

Share Our Strength is a national nonprofit organization dedicated to ending childhood hunger in the United States by connecting children with the nutritious food they need to lead healthy, active lives. Through our No Kid Hungry campaign, Share Our Strength ensures children in need are enrolled in effective Federal nutrition programs; invests in community organizations that fight hunger; teaches at-risk families how to cook healthy, affordable meals; and builds public-private partnerships to end childhood hunger at the state and city level. This approach allows Share Our Strength to leverage Federal investments in Federal nutrition programs to ensure these programs are used effectively and efficiently. We are pleased to submit testimony for the record to the House Agriculture Committee, Subcommittee on Nutrition and Horticulture for your hearing on the farm bill reauthorization.

The reauthorization of the farm bill offers a unique opportunity to ensure children in this country receive the food they need to grow and thrive. The Supplemental Nutrition Assistance Program (SNAP) is a critical lifeline for millions of families struggling to make ends meet, helping them to put food on the table and to maximize nutrition on a limited budget. More than 16 million children are living in poverty in the United States and one in five children are at risk of hunger. Over 46 million Americans rely on SNAP benefits to buy the food they need to feed their families, and 76 percent of SNAP households include a child, elderly person, or disabled person. Ensuring our children have enough to eat must be a priority for our nation.

At Share Our Strength, we have long seen firsthand how important SNAP is to families. Recently, individuals from across the country have written us to share the important role SNAP played during difficult times in their lives, and, most importantly, how the program allowed them to get back on their feet to a place where they no longer needed to rely on the program.

Tracy, from the Chairwoman's home state of Ohio, told us about how food stamps served as a safety net to provide for her children when her family fell on hard financial times. She wrote to us: "I am now 61 years old but when I was a teen my parents died and I became pregnant. My daughter and I used food stamps as I finished school and then became employed. She is now raising our grandchildren after she attained her college degree with high honors and I am happily married for many years. I am forever grateful that we had that help when it was so necessary if I were to succeed and she was to thrive in preschool."

L. in Mr. Baca's home state of California shared with us: "Like so many other people, I was the eldest of two siblings being raised by a single mother. The struggle for our family to stay fed was aided by school lunches and by my grandmother who often supplied our evening meal and most meals on weekends. It wasn't until I was much older that I came to realize that she fed us so frequently because there was often little to eat at home by the end of the month. As an adult with a professional job and a college education, I sometimes run into people that make negative comments about people on public assistance. They could never have guessed that I had been one of those people. . . . It is tempting to vilify people that have fallen on hard times because then you can comfort yourself with the idea that if you do everything right, this won't happen to your family. Sometimes life just doesn't turn out the way your planned it—not because you failed, were lazy or didn't try hard enough . . . but because that is life."

SNAP recipients are often our nation's heroes. Kimberly in Indiana told us: "My experience with food stamps began in May of 1994, and it should have begun much earlier. I have five sons, and my husband was in the U.S.M.C. He was in the military drawdown after the Gulf War, so our civilian life began March 08, 1992. We went through a lot of hardship trying to be self-reliant, and in the end it did not work. I was desperate, and applied for food stamps. My family began to eat well. Their health increased. They became carefree, not having to be hungry. I am grateful to my government for helping us when we needed it."

Lack of an adequate, nutritious diet during childhood hinders educational achievement, and has long-term consequences for future workforce competitiveness. Hungry children cannot learn as much or as fast because chronic under-nutrition impairs cognitive development. They are also more likely to be sick often, resulting in absence or tardiness from school. Hungry children are 1.4 times as likely to repeat a school grade. As we compete with a global workforce, hunger saddles our youth with lower educational and technical skills and our nation with a less capable group of workers. Funding cuts to SNAP would be detrimental to these families and would place children who rely on food provided by SNAP at an unfair disadvantage compared with their peers.

Proposals have been discussed in Congress this year to turn SNAP into a block grant program. The estimated effect of such a policy is severe: cuts of as much as $134 billion to states that rely on Federal funding for SNAP to ensure families have access to food. These funding cuts would be devastating to the families who rely on SNAP to feed their children.

In addition to the health and education benefits SNAP provides to children and families, the program also provides crucial economic stimulus activity for communities across the country. Every $5.00 in new SNAP benefits generates $9.00 in total community spending. Additionally, SNAP has proven itself a program that is responsive to the economic climate, especially in recent years. As unemployment numbers grew during the recession, SNAP responded quickly and provided benefits to families facing job loss, often due to layoffs or budget cuts. Now, as the economy slowly begins to recover, SNAP participation is expected to decline to nearly pre-recession levels. According to the U.S. Department of Agriculture, new SNAP recipients stay on the program an average of 8 to 10 months, demonstrating the program's effectiveness as transitional assistance for those falling on hard times.

As important as ensuring families have access to the SNAP benefits they need is giving them the tools to prepare healthy meals with the ingredients they purchase with SNAP dollars. Share Our Strength partners with community nonprofit organizations to run Cooking Matters, a 6 week nutrition education program that has taught more than 88,000 low-income families how to stretch their food dollars in a healthy way since 1993. Many of our community partners depend on funding from the SNAP Nutrition Education program to run Cooking Matters courses. Participants in the program learn how to select nutritious and low-cost ingredients, prepare them in healthy ways and maximize their food resources.

We've seen proven results from Cooking Matters, demonstrating additional support for the SNAP Nutrition Education program. One such example is a woman named Lareese from Graysonville, Maryland. Lareese is a single mother of two, relying on SNAP and WIC to feed her family. She recently graduated from a dental assistant program and is looking for work. Lareese is active in her community center, and signed up to take a 6 week Cooking Matters course offered there. Before participating in Cooking Matters, Lareese would sometimes run short on groceries before her benefits renewed. Six weeks after graduating from the course, she was able to stretch her food money an additional 2 weeks. Before the program, she would buy about two food items with a $6 WIC check for fruit and vegetables. Now, after having learned to compare the unit price of groceries and consider frozen and canned fruit as an alternative to fresh, she's able to stretch that $6 to buy two packages of frozen fruit, two canned fruits and some applesauce. As a result of Cooking Matters and SNAP Nutrition Education, Lareese is providing healthier, more nutritious foods for her family.

Myths about the ways in which SNAP recipients spend their benefits continue to exist, including that the program's participants spend their money on unhealthy fast-food options. A recent study by Share Our Strength supports our first-hand experience with SNAP recipients who are eager to provide their families with healthy foods. We surveyed 1,500 low to middle income families—the majority of whom are SNAP or WIC recipients—about their cooking habits. In the study, which was supported by the ConAgra Foods Foundation, 85 percent of families rated eating healthy meals as important, and eight in ten families reported they cook dinner at home at least five times a week. In a typical week, a low-income family eats fast food for dinner one night a week. As income decreases, the frequency of eating dinner made at home increases. But for all the cooking low income families are doing, they're struggling to make healthy meals because their food budgets are limited.

The study found that three in four families agree that cooking healthy meals at home is realistic, but only about half of those we surveyed are able to make healthy meals most nights of the week. That is far too many families whose healthy eating aspirations aren't matching up to their daily realities. When asked what was keeping them from eating healthy meals, cost was the most commonly cited barrier. Healthy options like fresh produce, lean protein and seafood are commonly passed over at the store because of their price. These findings demonstrate strong support for the continued Federal investment in Federal nutrition programs, including SNAP and SNAP Nutrition Education.

We recognize the challenges presented by the current fiscal environment, and that the Committee is under pressure to find savings this year. However, cutting funding for SNAP—either through policy changes that limit eligibility for the program for millions of Americans who need these benefits, or by lowering benefit levels—would be devastating to the economic and health well-being of our country. Efforts to fight against childhood hunger and promote child nutrition have long enjoyed bipartisan support, and there is a longstanding, bipartisan commitment to protecting SNAP, child nutrition programs, and other nutrition assistance programs in past deficit reduction plans. Congressional committees and the President's bipartisan National Commission on Fiscal Responsibility and Reform have sought ways to find cost-savings in Federal programs without cutting funding for anti-hunger programs. We urge you to take the same tack when negotiating the farm bill legislation.

We appreciate the opportunity to submit testimony on this important issue, and look forward to the Committee's actions moving forward on the Nutrition title of the farm bill. For more information or questions regarding this testimony, please contact Lucy Melcher at [**Redacted**].

SUBMITTED QUESTIONS

Response from Daniel R. Richey, President and Chief Executive Officer, Riverfront Packing Company; on Behalf of Florida Fruit & Vegetable Association

Questions Submitted By Hon. Steve Southerland II, a Representative in Congress from Florida

Pest and Disease Management Program

Question 1. Florida is listed by the U.S. Department of Agriculture as the number two high-risk state, second only to California. The Florida Department of Agriculture indicates that costs to combat pests and diseases affecting Florida farmers have easily exceeded $1 billion over the last decade.

The 2008 Farm Bill established for the first time a Pest and Disease Management Program "Section 10201" for the full range of activities needed to effectively detect, control and mitigate pest and disease threats to specialty crops, and protect against the spread of invasive pests. *How are these funds being used to help to ensure the future of specialty crop growers, to protect against imminent plant pest and disease threats?*

Answer. The Section 10201 program has segregated its activities into a number of distinct goals that individually strengthen our ability to mitigate pest and disease issues, ideally before they become established in the U.S. Each of these issues areas is extremely important in achieving Congress' original intent. They include; physical detection, such as dog teams in Florida's various ports-of-entry, public awareness campaigns, and enhanced research on new technologies to identify these threats more effectively.

However, the real strength of the program is in the ongoing interaction between stakeholders and APHIS. The program leaders have been excellent in working with industry, state and local partners and educational institutions to better understand the urgent needs of industry and where these dollars can be most effectively deployed.

The result of this interaction is that the Section 10201 program is deploying a variety of unique strategies that are well-suited to the individual tasks and environments where they are intended. In general, the projects that are implemented in Florida look significantly different than those in Michigan as the pests and the host environments are vastly different. These projects are reviewed each year by the Federal partners and stakeholders for consistency with the original objectives. This open process has created a very strong and diverse program that has buy-in from a broad range of interested parties.

Specialty Crop Block Grants

Question 2. I understand that Specialty Crop Block Grants have helped provide specialty crops producers flexibility to meet the unique farming challenges to support projects in research, innovation, pest/disease management, production, nutrition, to fund priority state needs. The program works extremely well through state Departments of Agriculture to meet unique state production needs, allowing for meaningful input from agriculture producers in Block Grant process. (Florida is the second largest recipient based on specialty crop production.)

Please comment on this Specialty Crop Block grant program, which gives states the flexibility to address unique agricultural needs? Could this program also be used to address increasing environmental challenges and regulations producers are now facing?

Answer. The SCBG program was originally designed with great flexibility at its core. Congress provided states with the ability to recommend grants based upon their own needs, not prescriptive formulas that tied their hands. As long as the grants enhance the competitiveness of specialty crops, they are consistent with Congress' original intent.

Certainly the environmental and regulatory challenges that producers face today has threatened their competitiveness. As an industry, we have been faced with a variety of compliance issues including; numeric nutrient standards, food safety regulations, farm labor, crop protection and air quality issues to name a few.

Each of these issues, whether fully realized or merely threatened against the industry injects uncertainty into an already-uncertain agricultural market and impacts our ability to accurately forecast future output and necessary investments.

Specialty Crop Research Initiative (SCRI)

Question 3. Congress authored the Specialty Crop Research Initiative (SCRI) under the farm bill—and while not under the direct jurisdiction of this Subcommittee—in an effort to, "*develop and disseminate science-based tools to address needs of specific crops, including identify and address threats from pests.*"

The SCRI is an extremely valuable program, as research is often the key tool that specialty crop growers rely for the future of crop protection. However, some important modifications are needed to more closely reflect the perspective of specialty crop producers. As you know first-hand as a citrus grower, Florida and many other specialty crop regions of the country are fighting an extremely dangerous threat due to Citrus Greening represents an immediate threat to the entire $12.2 billion U.S. citrus industry in Florida, California, Alabama and Louisiana and Texas. The specialty crop disease has the ability to kill citrus trees and their fruit, within a few short years—literally placing the future of citrus production in nation at risk.

Timely research on Citrus Greening and its vector, the Asian Citrus Psyllid, is absolutely essential to ensuring the future of citrus production in this country. Recognizing this dire challenge, domestic citrus growers has "self-funded" more than $40 million in research annually over the past 4 years.

Please share your comments on how the SCRI could possibly work more closely with affected specialty crop stakeholder, those producers for whom the SCRI program was designed to serve, to make this research program as effective as possible? Do you think that "imminent threats to the future of crop production" should be taken into account? Should some recognition be taken into account for Specialty Crops of major national significance?

Answer. Much like the thoughts behind the Specialty Crop Block Grant program and the process that APHIS has instituted in regard to Section 10201, SCRI can be strengthened through continued dialogue with stakeholders. Their input must be significantly greater than simply checking a box during a grant review process.

The other programs I cited have this outreach as a major component of their process. That interaction allows constituent groups to have the flexibility to determine what their urgent priorities may be during a given year. For the State of Florida, citrus canker was a major priority a decade ago. During the intervening time, the threat of citrus greening (HLB) supplanted canker as the most imminent threat to our future. SCRI and related research programs must retain the flexibility to adapt to these threats just as the industry itself must adapt.

FORMULATION OF THE 2012 FARM BILL (CREDIT PROGRAMS)

THURSDAY, MAY 10, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
OVERSIGHT, AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1300, Longworth House Office Building, Hon. Jeff Fortenberry [Chairman of the Subcommittee] presiding.

Members present: Representatives Fortenberry, King, Crawford, Fudge, Baca, Peterson (*ex officio*), and Pingree.

Staff present: Brandon Lipps, Josh Maxwell, John Porter, Suzanne Watson, John Konya, Nona McCoy, Liz Friedlander, Lisa Shelton, Anne Simmons, Jamie Mitchell, and Caleb Crosswhite

OPENING STATEMENT OF HON. JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

The CHAIRMAN. This hearing of the Subcommittee on Department Operations, Oversight, and Credit to discuss credit programs in advance of the 2012 Farm Bill will come to order.

Good morning everyone. Thank you all for joining us today at the fifth hearing of our D.C. farm bill series. This last series is designed for us to gain perspective from agricultural leaders and stakeholders across the country on the future of farm policy.

This is a continuation of our information gathering process for the next farm bill that we began 2 years ago. Since then we have conducted 11 audit hearings and four nationwide field hearings. Additionally, this Subcommittee has held hearings to review credit conditions across rural America. Combined, this effort is designed to provide Subcommittee Members information regarding what farm programs are the most effective for our producers as we prepare to write the 2012 Farm Bill.

Throughout this process, we have learned that credit conditions are generally favorable, but we are reminded that those circumstances can change quickly. Although production agriculture in rural economies have been at the forefront of our nation's fragile economic recovery, the agriculture economy is highly cyclical. Just a few short years ago, crop prices were down. The U.S. Department of Agriculture was predicting that average farm income would decrease by 20 percent, non-performing loans were on the rise and credit conditions were generally tight.

Further, interest rates will eventually rise, record high prices will eventually fall. It is important for our constituencies to ensure—that we ensure sound farm and agricultural credit policies are in place to sustain a stable food and fiber supply. The Farm Service Agency administers several loan programs for farmers, ranchers and rural businesses, both through Direct Loan Programs and in cooperation with commercial lenders. Farming is capital-intensive and farmers must often apply for large amounts of credit to enter farming or to maintain their existing operations. Farm equipment can run upwards of a half a million dollars. Combines cost more than most homes. It is even cheaper to buy a house here on Capitol Hill than it is to buy certain cotton pickers. And the cost of land can be prohibitive in and of itself.

By providing direct loans or guaranteeing commercial loans, the Farm Service Agency affords farmers who are denied commercial lending access to credit. One of my colleagues just whispered, and so does student loans.

For beginning farmers with no credit history obtaining a loan can be impossible. My district is home to a growing community of farmers who raise foods specifically for local farmers markets and other emerging food retailers. With little historical data on farmers producing for these new markets, commercial credit institutions are sometimes reluctant to offer them credit.

As the average age of our nation's farmers increases annually, it is imperative that we look at ways to help beginning farmers enter the world of farming with high input cost, variable prices and risky weather. The Farm Service Agency can play a vital role in ensuring that beginning farmers, two of whom we will hear from today, have access to the credit necessary to ensure our nation's long-term food supply. However, it isn't only new farmers that need access to credit. All farmers operate in a risky environment, subject to volatile swings in both weather and commodity prices. These volatile swings and the effect on farm income can cause commercial credit markets to tighten. The Farm Service Agency loans ensure that farmers don't lose access to credit during such difficult times.

Today we will hear from both commercial lenders and beginning farmers on how we might improve loan programs going forward. And I welcome you all here today and look forward to your testimony.

[The prepared statement of Mr. Fortenberry follows:]

PREPARED STATEMENT OF HON. JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

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Today, we will hear from both commercial lenders and beginning farmers on how we might improve loan programs going forward.

I look forward to hearing their testimony.

The CHAIRMAN. Now let me turn to our Ranking Member from Ohio, Ms. Fudge.

OPENING STATEMENT OF HON. MARCIA L. FUDGE, A REPRESENTATIVE IN CONGRESS FROM OHIO

Ms. FUDGE. Thank you very much, Mr. Chairman. And I thank you for holding this hearing today.

During the course of this Congress, this Committee has carefully examined different facets of agricultural credit. I look forward to incorporating what we have learned over the past year into the 2012 Farm Bill. I would like to welcome our panelists and thank you for your willingness to participate today. I am particularly pleased to have an urban farmer and agriculture entrepreneur from my home district on the panel.

Mr. Walton, your presence is greatly appreciated. You bring a different perspective that I would like my colleagues to learn more about.

Mr. Walton represents a new generation of city farmers. City farmers are among the most innovative thinkers this country has to offer. They take meager resources and turn cities green. From rooftop gardens to fisheries in the middle of neighborhoods, the work they are doing is exceptional. They are changing the way children think about food. They are creating job opportunities for college graduates who would otherwise find themselves unemployed.

This new generation of farmers is doing all of this without the same resources afforded to traditional farmers; important resources like credit. Access to credit can make or break rural farmers, and urban farmers are no different.

I would also like to recognize another one of our panelists, Mr. Frazee, and the Farm Credit Council. The Farm Credit Council came to my district recently in an effort to help our farmers learn how to access credit.

Thank you for your efforts.

Again, Mr. Chairman, thank you for holding this hearing. I look forward to hearing from our panel of witnesses.

[The prepared statement of Ms. Fudge follows:]

PREPARED STATEMENT OF HON. MARCIA L. FUDGE, A REPRESENTATIVE IN CONGRESS FROM OHIO

Thank you, Mr. Chairman. Thank you for holding this hearing today. During the course of the 112th Congress, this Subcommittee has carefully examined different facets of agricultural credit. Our hearings have served as an excellent primer. I look forward to incorporating what we've learned over the past year into the 2012 Farm Bill.

I'd like to welcome our panelists and thank you for your willingness to participate today. I'm particularly pleased to have an urban farmer and agricultural entrepreneur from my home district on the panel. Mr. Walton, your presence is greatly appreciated. You bring a different perspective that I'd like my colleagues to learn more about.

Mr. Walton represents a new generation of city farmers. City farmers are among the most innovative thinkers this country has to offer. They take meager resources and turn cities "green." From rooftop gardens to fisheries in the middle of neighborhoods, the work they're doing is exceptional. They're changing the way children think about food. They are creating job opportunities for college graduates who would otherwise find themselves unemployed. This new generation of farmers are doing all of this without the same resources afforded to traditional farmers. *Important resources like credit.* Access to credit can make or break rural farmers, and urban farmers are no different.

Before I yield back, I'd also like to recognize another one of our panelist, Mr. Frazee, and the Farm Credit Council. The Farm Credit Council came to my district recently in an effort to help our farmers learn how to access credit. Thank you for your efforts.

Again, Mr. Chairman, thank you for holding this hearing. I look forward to hearing from our panel of witnesses.

The CHAIRMAN. I thank the Ranking Member.

The chair would request that other Members submit their opening statement for the record so that we would have time to move directly into the witnesses' testimony.

[The prepared statement of Mr. Baca follows:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Chairman Fortenberry and Ranking Member Fudge:

I am pleased to be here today to discuss the important issue of agricultural credit as we prepare to move forward with the 2012 Farm Bill in the House Agriculture Committee.

I thank the Chairman and Ranking Member for convening this hearing and hope we will be able to gain insight into how agricultural lending has been impacted by the recent recession, and the policies that were put forward in the 2008 Farm Bill.

I also want to thank our witnesses, for taking time from their schedules to help us in Congress better understand this issue.

Because of the recent financial crisis, and the subsequent credit freeze—the Farm Service Agency is experiencing some of the highest demands ever for its loan services.

Is the *FSA properly funded to meet this demand?*

Are current limits for farm ownership and operating loans *sufficient to meet the needs of our agricultural producers?*

Are farm banks, community banks, and the Farm Credit System doing enough to meet the needs of *beginning, minority, and women farmers?*

These are some of the important questions we must address.

It is critical that we have this information as we prepare for the upcoming farm bill process in 2012.

Our agricultural producers—and rural America—*deserve the best credit system that we can give them.*

I look forward to hearing from our witnesses today and thank the Chairman and Ranking Member again for their leadership.

Thank you.

The CHAIRMAN. I would like to welcome you all again today.

We will begin with Mr. Bob Frazee. He is President and CEO of the MidAtlantic Farm Credit on behalf of the Farm Credit Council, and he is from Westminster, Maryland.

We also have today with us Mr. Jeff Gerhart. Mr. Gerhart is Chairman of the Bank of Newman Grove, and he is testifying on behalf of the Independent Community Bankers of America, again from Newman Grove, Nebraska.

Mr. Matthew Williams is also with us. Mr. Williams is Chairman and President of Gothenburg State Bank, and he will be testifying on behalf of the American Bankers Association. He is from Gothenburg, Nebraska.

As we heard, Mr. Michael Walton is an urban farmer from South Euclid, Ohio, and he is also the Owner of Tunnel Vision Hoops.

Welcome sir.

And today, we will also hear from Mr. Justin Doerr, who is a beginning farmer from Plainview, Nebraska, and a returning veteran as well.

Thank you all for coming.

Mr. Frazee please begin with your testimony.

STATEMENT OF BOB FRAZEE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MIDATLANTIC FARM CREDIT, WESTMINSTER, MD; ON BEHALF OF FARM CREDIT COUNCIL

Mr. FRAZEE. Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the Farm Credit System.

My name is Bob Frazee, and I am President and CEO of MidAtlantic Farm Credit. We serve about 10,500 farmers in Maryland, Delaware, Virginia, Pennsylvania and West Virginia. The Farm Credit System is comprised of 87 institutions, all of which are cooperatively owned by our borrowers. We provide credit and other related services to our owners and others consistent with the eligibility criteria set out in the Farm Credit Act.

I report to an 18 member board of directors; 16 of these directors are farmers and elected by the members of the cooperative, and two are appointed outside directors that have financial experience. My board ensures that management makes available loan products and financially related services appropriate to the unique needs of agriculture in the geographic territory that we serve.

While Farm Credit institutions obtain loan funds from the investing public through the issuance of system-wide debt securities by the Federal Farm Credit Banks Funding Corporation, we don't have access to insured deposits backed by the U.S. Treasury. All Farm Credit institutions are regulated by the Farm Credit Administration, an independent agency of the Federal Government charged with the responsibility of ensuring that we operate in a safe and sound manner. FCA's budget is covered by assessments paid by System institutions, not by taxpayer funds. Our cooperative structure and governance ensures that our activities are driven by the needs of our farmer members and that there is a reliable and competitive credit source available to agriculture that farmers own and control.

Now, a few numbers for you: The Farm Credit System remains very strong financially. The System's combined net income was $3.94 billion for 2011. And last week, we reported that the System's net income for the first quarter for 2012 was nearly $1.1 billion. The System ended with about $175 billion in total loans, and we added another $3.9 billion in loans during the first quarter of this year.

The System has a very strong capital position, ending the first quarter with capital as a percentage of total assets standing at 15.8 percent. We continue to change and adapt as agriculture changes. We constantly evaluate programs to ensure that we are serving all of agriculture.

Five years ago, MidAtlantic Farm Credit began our StartRight Program, which is a suite of loan products specifically designed to address the hardships faced by young, beginning and small farmers. Today we are looking to expand that program to include the challenges faced by small urban farmers. We are working with the State of Maryland to create a fund that will provide the same access to credit and operating capital to those farming in urban areas as is available to other agricultural producers in our area. And when we finalize our agreement with the state programs, we are expecting to have a robust microloan program available in Baltimore City in the next few months that will help support urban agriculture.

Every Farm Credit association has programs in place targeted specifically at meeting the needs of young, beginning and small farmers. Nationwide, in 2011, new loans to young farmers totaled $7.4 billion, and new loans to beginning farmers added up to $9.6 billion. We also share our profits directly through patronage dividends with the farmers that borrow from us. In 2011, MidAtlantic distributed over $25 million in earnings to our member borrowers.

The Farm Credit System in total distributed just over $900 million in patronage in 2011. Now, this cash is a real economic stimulus, allowing our customer owners to reinvest in their own operations and their rural communities.

We remain vigilant regarding price increases in agricultural real estate, most notably in the Midwest. System institutions continue to finance land transactions by remaining focused on sound underwriting principles and by making credit decisions based upon the repayment of the individual borrower. Where necessary, System institutions have implemented adjustments to their own loan underwriting standards to reduce the risk on new loans. The net result is that terms are more conservative than the maximum allowed by law and regulation but which are designed to maintain safety and soundness.

Farm credit institutions make good use of USDA's Farm Service Agency loan guarantees to support our lending. They allow us to serve higher risk credits. We would encourage the Committee to ensure that the eligibility requirements for these programs are flexible enough to permit farmers to fully use modern legal structures as they structure their businesses.

H.R. 874 introduced last year by Mr. Owens and Mr. Courtney would help address this. We would encourage you to include this in the credit title of the farm bill.

The Senate version of the farm bill includes a substantial rewrite of the statutory provisions that govern the operation of the FSA Direct and Guaranteed Loan Programs, as well as the rural development programs. We are still reviewing these, and we look to fully understand their implications for further programs. And should we find areas of particular concern, we will bring these to the Committee's attention.

[The prepared statement of Mr. Frazee follows:]

PREPARED STATEMENT OF BOB FRAZEE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MIDATLANTIC FARM CREDIT, WESTMINSTER, MD; ON BEHALF OF FARM CREDIT COUNCIL

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Farm Credit System. My name is Bob Frazee, and I am President and CEO of MidAtlantic Farm Credit. MidAtlantic is a part of the nationwide Farm Credit System. My remarks today will provide some background on the Farm Credit System, comments on current credit conditions and discuss how we are working to meet the credit needs of agriculture in the geographic area served by my institution.

Background on the Farm Credit System

Established in 1916, the Farm Credit System is a unique set of 87 private institutions, including four funding banks (three Farm Credit Banks and one Agricultural Credit Bank) and direct-lending associations, all of which are cooperatively owned by farmers, ranchers, agricultural cooperatives, rural utilities and others in rural America. We are chartered by the Federal Government to provide credit and other related financial services to our owners and others consistent with the eligibility criteria set out in the Farm Credit Act.

MidAtlantic is one of these 87 Farm Credit cooperatives. We are owned by more than 10,500 farmers that borrow from us in the states of Maryland, Delaware, and parts of West Virginia, Virginia, and Pennsylvania. As President and CEO, I report to an 18 member Board of Directors. Sixteen of these directors are farmers elected by the members of the cooperative. MidAtlantic is required to have at least one appointed outside director that has financial experience, and we have chosen to have two. In no case are employees allowed to serve as directors.

There are 83 independently operated Farm Credit associations like MidAtlantic serving agriculture throughout the United States and Puerto Rico. Every Farm Credit association is organized as a cooperative that is owned and governed by its farmer-members. Our Board of Directors is responsible for establishing our institution's capitalization plan consistent with Federal regulations and for ensuring that management makes available loan products and financially related services appropriate to the unique needs of agriculture in the geographic territory that we serve.

Each Farm Credit association obtains funds for our lending programs from one of four Farm Credit banks. At MidAtlantic, we get our funding from AgFirst Farm Credit Bank (located in Columbia, SC), which is cooperatively owned by twenty-two local associations. The four System banks own the Federal Farm Credit Banks Funding Corporation (located in Jersey City, NJ), which, as agent for the banks, markets to the investing public the System-wide debt securities that are used to fund the operations of all Farm Credit System institutions. Unlike commercial banks, Farm Credit institutions do not have access to insured deposits guaranteed by the FDIC and backed by the U.S. Treasury as a source of funding for our operations.

Regulatory Oversight by the Farm Credit Administration

All Farm Credit institutions are regulated by the Farm Credit Administration (FCA), which was created by Congress and is subject to oversight by both House and Senate Agriculture Committees. The FCA is an arm's-length, independent safety and soundness regulator. FCA's three board members are nominated by the President and confirmed by the Senate. The FCA has the oversight and enforcement powers that other Federal financial regulatory institutions have to ensure that Farm Credit institutions operate in a safe and sound manner.

The Farm Credit System's mission, ownership structure and authorizing legislation are unique among financial institutions. For farmers, ranchers and the cooperatives that they rely on, it is critically important that Farm Credit's safety and soundness regulator understands our unique mission and what it takes to be successful in accomplishing that mission.

Fulfilling Farm Credit's Mission of Serving Agriculture and Rural America

All Farm Credit System institutions are focused on accomplishing the mission established for us by Congress: to serve agriculture and rural America. Our cooperative structure and governance is designed specifically to ensure that our lending and financially related service activities are driven by the needs of our farmer-members and to ensure that there is a reliable and competitive credit source available to agriculture that farmers own and control. Our practice is to engage our customers in a consultative lending relationship, using our accumulated expertise and knowledge of agriculture and finance to craft long term lending relationships that are often delivered across the farmer's kitchen table.

Farming has changed since the Farm Credit System was created. We embrace that change, and are constantly evaluating programs to ensure that we are serving all of agriculture. Five years ago, MidAtlantic Farm Credit began our StartRight program, a suite of loan products specifically designed to address the hardships faced by young, beginning, and small farmers. Today, we are looking to expand that program to include the challenges faced by small, urban farmers. Our staff is working with the state of Maryland to create a fund which would allow city farming the same access to credit and operating capital that's available to other agricultural producers in our area. We are finalizing our agreement with state programs, and expect to have a robust microloan program available in Baltimore in the next few months.

Farming—no matter where it takes place—isn't a short-term investment for our member-borrowers. Our cooperative structure allows us to work with our farmer-owners with an approach not focused on achieving quarterly returns to impress investing stockholders. When our customer-owners achieve success in their business, our business will succeed as well. Farm Credit's lending relationship with our member-borrowers is based on constructive credit over the long haul—we make loans, retain loans, and service loans. We do not enter and exit agricultural lending as farm profitability waxes and wanes.

Distributing Profits to Farmers through Patronage

Our commitment to our farmer-members' business success is demonstrated further by the fact that we share our profits directly through patronage dividends with the farmers that borrow from us. Each year, the MidAtlantic Farm Credit's board of directors makes a determination based on our profitability and financial strength as to what portion of our net earnings will be returned directly to the farmer-members that own our institution.

In 2011, MidAtlantic Farm Credit distributed over $25 million in earnings as patronage dividends to the member-borrowers of our cooperative. In total the Farm Credit System in 2011 distributed just over $900 million in patronage. This patronage distribution is rural stimulus that allows our customer-owners to re-invest in their own operations and to support rural communities through local spending.

Farm Credit's Financial Strength

The Farm Credit System remains very strong financially. The System's combined net income was $3.94 billion for 2011, and we are pleased to report that the System's net income in the first quarter of 2012 was nearly $1.1 billion. Nationwide, Farm Credit ended 2011 with a loan portfolio of about $175 billion and we added another $3.9 billion in loans during the first quarter of this year closing the period at about $178.6 billion. Farm Credit's financial performance has allowed growth in combined capital to almost $36 billion as of year-end 2011. At the end of the first quarter of this year capital as a percentage of total assets stood at 15.8%.

Current Conditions in Agriculture

The Farm Credit System continues to be a steady source of credit for agriculture. There continues to be much interest in price increases in agricultural real estate, most notably in the Midwest. Farmland values have increased for many reasons—a continuing low level of turnover in agricultural land, higher commodity prices resulting in the availability of cash in the pockets of farmers as well as continued low interest rates and the relatively low returns of alternative investments for farmers. Farm Credit System institutions approach their markets prudently. System institutions continue to finance land transactions by remaining focused on sound underwriting principles and making credit decisions based on the repayment capacity of the individual borrower. Because we hold virtually all of our loans on our own balance sheet, we have a strong interest in seeing that our customers are successful and prudent in their own risk-taking, including the purchase and financing of farm real estate.

Given the volatility and risk in the present agricultural real estate values, most Farm Credit System institutions have implemented adjustments to their underwriting processes to reduce the risk on new real estate loans. These actions have included setting lower loan to value limits or establishing maximum loan per acre limits, strengthening loan analysis by stress testing a borrower's repayment capacity, shortening loan terms, or cross-collateralizing loans with property that has limited debt encumbrance. Appraisals are completed by certified and licensed appraisers who are totally independent of the credit decision process. The net result is terms that are more conservative than the maximum allowed by law and regulation, but which are designed to maintain safety and soundness.

A Commitment to Serving Young, Beginning and Small Farmers

Every Farm Credit association has programs in place targeted specifically at meeting the needs of three special categories of borrowers, those that are young, those that are just beginning in farming, and those that are small farmers. Our mission to serve the needs of young, beginning, and small farmers leads us to identify, understand, and finance the farm operations that these new agriculturalists engage in, such as organic, sustainable, local food-related, direct-to-retail, or other emerging business models. We recognize that we must reach out to those who are innovators in farm enterprises in order to follow today's niche operation as it becomes tomorrow's mainstream business.

Nationwide, the Farm Credit System's dedication to serving the credit needs of Young, Beginning, and Small farmers is evident by the level of credit we have extended to these groups. New loans in 2011 to young farmers totaled $7.4 billion, in the same period those to beginning farmers added up to $9.6 billion, and to small farmers totaled about $11.2 billion. (It is important to note that farmers may be included in multiple categories since they are included in each category for which they meet the defined characteristic; young—35 or younger; beginning—10 years or less of farming experience; small—less than $250,000 in annual gross farm sales)

Importance of Maintaining USDA Programs

Farm Credit institutions make good use of USDA's Farm Service Agency (FSA) loan guarantees to support our lending, particularly to young and beginning farmers and ranchers. The guarantees available through FSA allow us to serve higher risk credits that might not otherwise meet our underwriting standards. We would encourage the Committee to review the eligibility requirements for these programs to ensure that they are flexible enough to permit modern legal structures that farmers are turning to as they structure their businesses. We applaud the efforts of two Members of this Committee, Congressman Owens and Congressman Courtney, who introduced H.R. 874 last year, important legislation that would address one of these issues. We would encourage the Committee to adopt this as you consider the credit title of the farm bill.

The version of the farm bill recently approved by the Senate Agriculture Committee includes a substantial re-write of the statutory provisions that govern the operation of the FSA direct and guaranteed loan programs as well as the Rural Development programs. We are still reviewing these changes in an effort to fully understand their implications for those programs. Should we find areas of particular concern we will bring those to the Committee's attention. Rural Development's Community Facility Guarantee Program has been an important way for our Farm Credit institutions to provide funding for critically needed facilities in many of the rural communities they serve. We have been disappointed that USDA in recent years has sought to zero out funding for this program, instead intending to rely solely on its direct lending program. We appreciate the continued support Congress has provided for the guarantee program.

Crop insurance remains an extremely important risk management tool for farmers throughout the country. It is extremely important as a lender to agriculture that we know our customers have insured their production. This protects the farmer and it protects lenders as we provide credit to farmer to cover their operating expenses. A strong, effective crop insurance program is vitally important to maintaining credit flows to agriculture. We strongly urge the Committee to maintain a robust crop insurance program and that it not be burdened with conservation compliance requirements nor be limited through caps on the level of supported insurance that individuals may receive.

Serving Rural Communities and Global Markets

Through CoBank, the Farm Credit System continues to serve the needs of rural communities in the energy, communications, and water industries. Customers in these industries include rural electric generation and transmission cooperatives, electric distribution cooperatives, independent power producers, rural local exchange carriers, wireless providers, cable television systems, and water and waste water companies. Farm Credit loans to these customers totaled about $15.6 billion at the end of 2011. This represents a $1.7 billion increase since 2008.

CoBank also facilitates the export of U.S. farm products through its international financing activities. At the close of 2011, CoBank had just over $3.8 billion of agricultural export loans outstanding. USDA's GSM–102 export credit guarantee program is very important to our nation's ability to export agricultural products. Since the last farm bill, the GSM–102 program has helped move more than $17 billion in U.S. farm products to overseas markets. We support the continuation of the GSM–102 program and encourage the Committee to reauthorize it in the coming farm bill.

Addressing Derivatives Reform

We appreciate the leadership of the Committee in moving forward H.R. 3336, the Small Business Credit Availability Act. This legislation addressed needed clarifications regarding the treatment of certain financial institutions that use derivatives to manage their interest rate risk and that enter into swaps with customers seeking to manage risk in the connection with the extension of credit to those customers. These institutions were not the source of the problems in these markets, they should not be penalized as the result of the actions of others, and it is clear that it was never the intent of this Committee to have these institutions and their activities caught up in the technical definitions and adversely impacted. The approval of this legislation by the House helps accomplish this.

Liquidity at Times of Market Disruption

The Farm Credit System relies on our access to the financial markets to make credit available to our borrowers. A disruption in the efficient operation of those markets can adversely impact our ability to serve agriculture. In 2008 we witnessed how a world financial crisis could disrupt capital flows. Farm Credit continued to access funding but we were forced to change our offerings due to the unwillingness of the market to accept longer term debt at that time. Farm Credit never had to deny a single farmer, cooperative or other eligible borrower access to credit because we could not access the nation's money markets. Nevertheless, that financial market turmoil demonstrated to us that our ability to access the necessary funding to meet our mission to agriculture and rural America may be at risk if circumstances beyond our control disrupt our market access. We want to continue to keep this issue before the Committee as we study how it might best be addressed.

Conclusion

The Farm Credit System remains financially strong, stable, economically vital, and focused on serving its mission for agriculture and rural America. We continue to make credit available to all segments of agriculture including commercial producers as well as young, beginning and small farmers. We are proud of our commitment to rural America. There are no Federal dollars invested in the Farm Credit System. We pay for the expense of being regulated by the Federal Government through assessments on all Farm Credit System institutions, and we pay insurance premiums to provide protection for those who invest in our debt securities. To continue serving our mission, we must have continued access to the national debt markets and an independent, arm's-length regulator that comprehends the unique requirements of agriculture and rural communities. In addition to being closely regulated, we have the built in oversight mechanism of our owners holding our feet to the fire to keep service quality high while protecting their equity in the cooperative.

Mr. Chairman, thank you again for the opportunity to testify today on behalf of the Farm Credit System. I will be pleased to respond to your questions.

The CHAIRMAN. Mr. Frazee, if you could suspend there please. We need to try to hold to a 5 minute time constraint on opening testimony. So we can turn back to some of your points perhaps during questioning.

But thank you.

Also for the panel, we may be interrupted by a call to go vote. So if we can expedite through the opening testimony, I think that would be helpful to get through the hearing in the best possible manner.

So let's now turn to Mr. Gerhart please, if you would give your testimony.

STATEMENT OF JEFFREY L. GERHART, CHAIRMAN, BANK OF NEWMAN GROVE; CHAIRMAN, INDEPENDENT COMMUNITY BANKERS OF AMERICA, NEWMAN GROVE, NE

Mr. GERHART. Mr. Chairman and Members of the Subcommittee, thank you very much for this opportunity to testify today on the farm bill's credit title.

I am Jeff Gerhart, Chairman of the Bank of Newman Grove in Newman Grove, Nebraska, and I am testifying as Chairman of the Independent Community Bankers of America.

The Bank of Newman Grove was established in 1891 and continues to serve our rural community today. Our farmers raise corn, soybeans, hogs and cattle. Our bank makes loans to farmers for farmland, machinery, irrigation, pivot systems, livestock and operating loans, whatever the farmer needs. We have the expertise to help our customers finance their modern day agricultural operations.

Most of our customers are families that have banked with us for several generations. Like most community banks, our goal is to keep the family farmers passing their farm onto the next generation and in turn keep our rural communities vibrant. We also serve local businesses along the main street, from the couple local restaurants, auto repair shops, dental practice, medical clinic, just to name a few.

In fact, the 7,400 community banks across the country continue to do an outstanding job of this in their respective communities. Community banks have only a little more than ten percent of all assets but make almost 40 percent of all small business loans. Further, community banks under $1 billion extend about 56 percent of farm operating loans and 62 percent of farm real estate loans from the banking sector.

Now, these days commodity prices and farm incomes are historically high. Net cash income should be right in the $96 billion range this year; producer expenses will be a record $334 billion.

Here are a few observations: Each year our bank does a stress test on our farmland values to determine a farmer's ability to withstand shocks to their income. With high cash levels, farmers have reduced debt loads. Most bankers feel land values shown on farm financial statements are conservative. Most bankers feel farm customers can handle a modest correction in commodity prices and a modest correction in farmland values.

Farmers have been updating equipment, making capital improvements, and this will benefit them in the long run. And these factors should help them be better prepared as we work and look to the future. The cyclical nature of agriculture, the uncontrollable risk of adverse weather, unknown commodity prices and rising cost of production require a continued and robust farm safety net.

Maintaining crop insurance funding is an extremely important aspect of the farm safety net. And while crop insurance is not part of the credit title, it allows lenders to extend credit. It gives us assurances producers will repay loans even in the event of bad weather or falling prices. As a crop insurance agent myself, I can attest that crop insurance is a necessary risk management tool vital to our farm customers.

We have a couple of recommendations for the USDA's Guaranteed Loan Program. First, we would like to see removal of term limits on farm ownership loans. Fees have been increased. The program is now self-funding, so there might be not as much reason to limit the eligibility for a self-funded program. Community banks extend the financing, as you all know, not the government.

Second, significantly increase the size of guaranteed loan limits. Farmland values and production expenses have risen dramatically. USDA's loan limit of $1.2 million has not kept pace.

Let me give you an example. This past winter, a 160 acre track of non-irrigated farmland sold in the Newman Grove area for $8,000 an acre, dryland. That is $1,280,000, slightly more than the USDA's loan limit. So 160 acre farm does not cash flow on its own, and to be a vital farm operation, the farmer needs in our area probably 750 to 1,000 acres.

Third, significantly increase the guaranteed volume caps. Higher loan limits mean USDA would need to increase the dollar volume extended to ensure an equal number of loans are made. Today's farmers often have different entities for tax and estate planning purposes, not all of which are owned by both parents and children, so there needs to be a look there and some consideration.

Increase and remove volume caps on the amount of lending in subsidiary categories. Certain types of loans have no loan losses, like health care. More loans and volume in these categories will generate more fees to finance other type of loans, like manufacturing. These recommendations should extend currently limited dollars into many more loans, much higher volume loans, and many more jobs in rural America without costing additional Federal dollars.

Mr. Chairman, thank you for devoting time today to discuss the agricultural credit issues. And I would be glad to answer any questions at the conclusion.

[The prepared statement of Mr. Gerhart follows:]

PREPARED STATEMENT OF JEFFREY L. GERHART, CHAIRMAN, BANK OF NEWMAN GROVE; CHAIRMAN, INDEPENDENT COMMUNITY BANKERS OF AMERICA, NEWMAN GROVE, NE

Introduction

Mr. Chairman and Members of the Subcommittee, thank you very much for the opportunity to testify today on a topic of great interest to this Committee, our nation's farmers and ranchers, and the thousands of community banks that serve rural America.

My name is Jeff Gerhart. I am Chairman of the Bank of Newman Grove, Newman Grove, Nebraska. I am testifying today as the Chairman of the Independent Community Bankers of America and I have previously been a member of ICBA's[1] Agri-

[1] **About ICBA**

The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests culture-Rural America committee. I am pleased to present ICBA's views and recommendations on credit programs for development of the 2012 Farm Bill.

Bank of Newman Grove, Nebraska

My hometown of Newman Grove, Nebraska is nestled in the rolling hills of southwest Madison County roughly 120 miles north and west of Omaha or Lincoln. The Bank of Newman Grove was established in 1891 and continues to provide our agricultural community with banking services that are needed to be a successful farmer in today's agricultural environment.

The Bank of Newman Grove makes farmland loans, machinery loans, crop loans, irrigation pivot loans, livestock loans—whatever the farmer needs to run a successful operation—we have the expertise to make sure our customers are equipped to operate modern day agricultural operations.

We provide our customers with a good financial analysis of their farming operation in order to help them make good decisions to be successful. Our farmers raise corn and soybeans as well as hogs and cattle. Most of our customers are families that have banked with us for several generations. In fact, we have a fifth generation farm customer who has two daughters—making them the sixth generation doing business with us. Community banking for the next generation is important for our farming community and for our country.

In addition to our farmers we also serve many local businesses along our busy Main Street—from the City Café, Barnes Mini Mart, Mid Nebraska Lutheran Home (skilled care and assisted living), a dental office and a medical clinic to name just a few.

We also reopened our local steak house "The Hombre" with about 80 local residents who raised $100,000. The "Hombre" is so busy on the weekends you would be smart to make a reservation before you arrive. That's a nice problem to have.

As I speak, the Bank of Newman Grove is talking with a local couple that is interested in buying our local weekly newspaper that has been in business for over 100 years. These are examples of just a few ways that our bank and community banks in general seek to keep our family farmers passing that farm onto the next generation and in turn keep our rural communities vibrant.

Community Banks Role in the Rural Economy

Community banks continue to play an important role in the nation's economy. There are approximately 7,400 community banks in the U.S. and the vast majority of these are located in communities of 50,000 or fewer residents. Thousands of community banks are in small, rural, and even remote communities.

Community banks have only a little more than ten percent of all bank assets but make almost 40 percent of all small business loans. This is important since small businesses represent an astounding 99 percent of all employer firms and employ ½ of the private sector workforces. In addition, the more than 26 million small businesses in the U.S. have created 70 percent of the net new jobs over the past decade. Small businesses are important in rural America since many farmers and/or their spouses have off-farm jobs. As small businesses ourselves, Community banks specialize in small business relationship lending. When our customers do well, community banks do well.

Community banks under $500 million in assets extend over 50 percent of all agricultural credit from the banking sector. In addition, commercial banks under $1 billion in asset size extend approximately 56 percent of non-real estate loans to the farm sector and 62 percent of the real estate credit. **Attachment B** of our testimony provides two charts which reflect community bank agricultural lending.

Farm Bill Needed Despite a Healthy Farm Economy

We have experienced a period of historically high prices and farm income levels in U.S. agriculture. According to USDA's February 2012 projections:

- Net farm income is forecast to be $91.7 billion in 2012, down $6.3 billion (6.5 percent) from the 2011 forecast.
- Net cash income is forecast to be $96.3 billion in 2012, down $12.5 billion (11.5 percent) from the 2011 forecast.
- Even so, it would remain $15.9 billion above the 10 year average (2002–2011) of $80.3 billion.
- Crop receipts are expected to experience a slight increase in 2012. A marginal decline is anticipated for 2012 U.S. livestock sales.

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of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. For more information, visit ***www.icba.org****.*

Net farm income measures wealth, while net cash income is a measure of solvency, or the ability to pay bills and make payments on debt. Along with income we also keep a close eye on the expense side of the equation. Higher commodity prices have led to higher input costs, which have led to a higher level of production expenses for farmers.

After surpassing the $300 billion figure for the first time in 2011, total production expenses are forecast to increase $12.5 billion in 2012 to $333.8 billion. While not as large as the increase in 2011, this forecast is the second consecutive increase of over $10 billion. In 6 of the last 8 years, the increase in expenses has been double-digit. As in 2011, the 2012 figure will set both nominal and inflation-adjusted records.[2]

Some members of the media, Congress and the general public have been asking why a new farm bill is even necessary in an era of ongoing higher prices and record farm income levels. Those of us who have been involved in agriculture and lending to agriculture for many decades know that change is the only constant in farming. Booms are often followed by busts and the euphoria of high prices can be met head-on by the nerve wracking challenges of extremely low prices.

Let me offer a word of caution when looking at income and expense numbers. They do not always move together. The farmer does not always make a profit when a crop is planted, harvested and sold or when livestock is sold. Farmers don't directly set their own prices. There are no guarantees.

The cyclical nature of agriculture and the uncontrollable risks of severe adverse weather combined with unknown commodity prices and costs of production require a continued safety net for farmers and ranchers.

A strong farm program also supports lenders in their decisions to extend loans to the farm community with some assurance that the loans will be repaid. A strong farm program helps to support our local communities—rural and non-rural. From Newman Grove to Omaha and similarly from small towns to larger cities across America, our success depends upon a strong agricultural industry.

Importance of Crop Insurance

Before commenting specifically on the credit title, I would stress the importance of the crop insurance program to the farm bill from a lender's perspective and as a crop insurance agent in my community. On the main street of Newman Grove, there are three competitive insurance agencies that provide our farmers with quality insurance products.

Crop insurance is important to the adequate supply of credit to farmers and ranchers as it provides assurance that farmers will be able to repay their operating loans in the event of weather related or price related calamities. Crop insurance is a good risk management tool that our farm customers have learned to use to better manage the risk that exists in farming today. The dramatic evolution of crop insurance in meeting the needs of most of our nation's farmers has been truly impressive. The use of crop insurance by U.S. farmers has grown sharply, from 45 million insured acres in 1981 to 262 million in 2011. The amount of insured liability rose from $6 billion in 1981 to more than $113 billion in 2011.[3]

Estimates are that crop insurance will have paid out over $11 billion to farmers and ranchers for 2011, a record level of indemnity payments. The fact that there were not calls for a multi-billion dollar emergency disaster bill during the past year is significant.

Texas, Oklahoma, Kansas and other states experienced the worst drought in their history and we really don't know what this year will bring. But, crop insurance is a testimony to the risk management needs of the farmers and ranchers. Crop insurance is a risk management tool that works and has provided stability to our agricultural economy.

ICBA urges Congress to maintain existing levels of funding for crop and revenue insurance programs, particularly if they are to be the foundation of the next farm bill.

ICBA Recommendations: Credit Title

Mr. Chairman, ICBA has made detailed recommendations suggesting adjustments that can be made to USDA guaranteed loan programs that could stretch existing dollars further. These recommendations cover USDA's guaranteed farm loan programs and the agency's Business and Industry (B&I) program.

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[2] 2012 Farm Sector Income Forecast, Revised Feb. 13, 2012, *www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm*.

[3] *Crop Insurance and the Future Farm Safety Net,* Keith Collins and Harun Bulut, 4th Quarter 2001, CHOICES MAGAZINE.

While we believe that additional funds should be added to these programs, at the very least there should be no cuts to these programs. The program multiplies a very minimal amount of Federal dollars into billions of dollars of loan volume in rural America.

Our full recommendations are attached as **Attachment A.** A summary of these recommendations follow.

Guaranteed Farm Loan Recommendations

- **Remove Term Limits on Farm Ownership (FO) Loans**

  Rationale—Fees have been increased and this program is now self-funding. There is no reason to limit eligibility for this self-funded program. Community banks extend the funds for guaranteed farm loans, not the government. Commodity programs do not have term limits and these programs can have significant budgetary costs.

- **Significantly Increase the Size of Guaranteed Loan Limits**

  Rationale—The costs of farmland and production expenses have risen significantly in recent years. The current loan limit ($1.2 million) has not kept pace with the costs of financing today's farmland values and the program is at risk of becoming largely irrelevant for financing the needs of family farmers.

  Let me give you an example: This past winter 160 acres of non-irrigated land sold for $8,000 per acre just northwest of Newman Grove. One hundred sixty acres of dryland is now selling for $1.28 million. If the land had irrigation, the price would be higher. A 160 acre farm would not be viable in our area and could not cash flow. Even a farm twice that size would not be profitable in our area. Our farmers average between 750 to 1,000 acres.

  Congress should direct USDA to test a pilot project that allows producers to choose to pay higher fees for even larger loan limits above whatever a new and higher loan limit would be set at for all producers. This would help accommodate individual family farmers' needs for operating loans. Real estate loans should also be included in the pilot program.

- **Significantly Increase Guaranteed Loan Volume Caps**

  Rationale—With an increase in loan limits, USDA would need to increase the amount or volume of dollars that are extended to ensure an equal or larger number of FO loans can be made. USDA should be given flexibility to accomplish this since the guaranteed FO program is self-funding.

- **Expand Eligible Borrowers to Meet Planning Needs**

  Rationale—While USDA has flexibility to meet most demand for guaranteed FO loans based on types of entities, eligibility needs to be expanded to allow guaranteed FO loans to borrowers who *either* own or operate family farms instead of requiring them to *both* own and operate a family farm.

  Today's farms often have different entities for tax and estate planning purposes, not all of which are owned by both parents and children. Protections need to be in place to ensure these loans do not go to large corporations that form various types of entities while providing flexibility to access both farm real estate and operating loans.

Guaranteed B&I Loans—Modify how the Subsidy Rate is Calculated

- **Disallow Loss Calculations Above Current Loan Limits**

  Rationale—Losses should not be calculated based on loans that USDA no longer guarantees, as such calculations do not reflect the true risks of how the program is operated.

- **Limit Loss Calculations to a Fifteen to Twenty-Year Timeframe**

  Rationale—Many changes have been made since the program's inception in 1974 and loss calculations should reflect a time period that is more representative of how the program has evolved and how it has been managed in recent history.

- **Increase/remove caps on amount of lending in "zero subsidy" categories**

  Rationale—Various categories or types of B&I loans have had no losses (*e.g.,* health care, *etc.*). Allowing these categories to have significantly more loans and volume than currently allowed would generate higher fee revenues to USDA. The additional revenues could finance more loans in other B&I categories (*e.g.,* manufacturing).

Additional options would include raising the guarantee percentage from 80 percent to 90 percent and lowering the origination fee from two percent to one percent on small B&I loans—loans up to $5 million or a loan size determined by the Secretary—and reducing paperwork. These changes, however, would require raising fees on the largest loan categories to offset reduced revenues from the lower fees on smaller loans. Congress should ask USDA what changes could be accommodated for smaller B&I loans in this manner while being revenue neutral.

Mr. Chairman, all of these recommendations for USDA guaranteed loan programs would very likely extend currently limited dollars into many more loans and significantly higher guaranteed loan volumes without requiring any new government funding.

We must seek to think creatively and outside of the box when dealing with scarce Federal dollars.

The ability of USDA's guaranteed loan programs to multiply the impact of very few Federal dollars to such an enormous degree should serve as a model of efficiency for many other government programs.

Farmer Mac

Farmer Mac has proposed legislation to expand their ability to act as a secondary market. This authority would allow Farmer Mac to purchase business loans, operating loans, short term loans and USDA guaranteed loans, and remove limits on the size of loans on acreages of less than 1,000 acres and other changes.

ICBA bankers and staff have discussed these changes with Farmer Mac and will continue discussing these issues in an effort to fully understand and assess these proposals and their potential for enhancing the activities of community banks in rural America.

Are Farmland Prices a Bubble?

There have been suggestions that current farmland prices represent a "bubble" that could burst causing economic harm in rural America much like the housing bubble that burst causing much devastation in the national economy.

Even some Federal banking agencies, not wanting to be caught unaware or unprepared, as they may have been with subprime mortgages and the activities of the nation's largest financial institutions, have suggested that the farm economy is in or nearly in a bubble. Ag banks are watching this closely and have conservative underwriting standards in place to protect both their banks and their customers.

On the other side of this debate, various ag economists and likewise some ag bankers do not believe we are in a farmland bubble at this time. Many suggest farmland values could drop, and perhaps significantly, without causing great harm to the farm economy, although such an outcome is not at all desirable. There are several reasons for this thinking.

First, community banks have been conservative in their farmland lending, basing those decisions on the ability of the land to cash flow at much lower price levels than exist today. In addition, the down payment required is often fairly significant approaching levels of 40 percent or more. Many farmers, due to the current high commodity prices and abundant harvests of recent years, are flush with cash and have made farmland purchases with cash borrowing little if anything. Further, interest rates are at historic lows, making this an excellent time to lock in low-cost, fixed rate financing.

Survey Results of ICBA's Agriculture-Rural America Committee

ICBA conducted a survey of its Agriculture-Rural America committee last summer to determine what the impact would be to the farm economy if commodity prices and farmland values began to fall. ICBA's Agriculture-Rural America committee consists of twenty-five bankers from every geographical region of the U.S. representing most agricultural commodities produced in the United States. I used the results of this survey as the basis for my remarks at the Kansas City Federal Reserve Bank's symposium "*Recognizing Risks in Global Agriculture*." [4]

Our committee's bankers were asked at what price would corn and soybeans have to fall before farmers started showing signs of stress? The consensus from the various agricultural bankers was that it would stress the farmers' cash flow if the price of corn was between $3.50 and $5 a bushel. Soybeans falling to the price of $8 per bushel would cause problems in most portfolios.

Our bankers were also asked how far farmland values would have to fall before the farmers would face serious challenges. While responses varied depending on crop, location, and other factors, bankers said a decline of 30 percent or more would be significant. Their answers also depended on what land value farmers have on

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[4] Kansas City Fed symposium: *Recognizing Risk in Global Agriculture, www.kansascityfed.org/publications/research/rscp/rscp-2011.cfm*.

their balance sheets or how much land they've bought recently with credit. Many of our borrowers have conservative land values in their calculations.

I was invited to participate in a panel entitled "*Weathering Unexpected Downturns in Agriculture*."[5] This panel discussed what degree of downturn it would take to cause financial distress in agriculture and I encourage the Committee to review this document to perhaps gain an even broader perspective on views of ag lenders on the rural economy.

A few relevant observations:

- Each year our bank stress tests our customers' land values to determine farmers' ability to withstand "shocks" to the farm economy;
- With the infusion of cash from a strong farm economy, farmers have been working to reduce their debt loads;
- Most bankers feel the land values shown on their farmers' financial statements are conservative;
- Most bankers feel their farm customers can handle a modest correction in both commodity prices and farmland values;
- Farmers have been updating their equipment over the past couple years;
- These considerations should serve to help make farmers more efficient during future times of potential stress.

Potential Factors Negatively Influencing Farmland Values

Factors that could come into play that would negatively impact farmland prices would be if the Federal Reserve began to raise interest rates sharply to deal with rising inflation in the general economy. This would particularly affect those borrowers who may be highly leveraged, although the number of these borrowers should hopefully be relatively low.

Also, rising production expenses and falling commodity prices would squeeze the ability of producers to have positive cash flows.

There may be particular problems in store for farmers whose non-bank lenders have conducted their own internal farmland appraisals and raised the appraised values of farmland on loan applications just to justify extending loans to farmers.

The House Agriculture Committee should not allow lenders under their jurisdiction to continue making in-house appraisals on loans above $250,000 but should rather require farmland appraisals to be made by outside, independent appraisers. Community banks use independent appraisers on loans over $250,000 as a prudent and sound underwriting practice.

We should also closely watch what is happening in other countries that are major purchasers of U.S. farm commodities. China has been a big influence on our domestic farm prices. Its economy is slowing and some suggest it could be in for a hard landing economically. The Euro zone countries, a larger cumulative economic base than the U.S. economy, has also witnessed many of its countries slipping into recession, as has the United Kingdom, a member of the European Union but not the Euro zone. European countries purchase 20 percent of overall U.S. exports.

In addition, many of the ten largest global economies outside of the U.S. and Europe, including China, Japan, Russia, Brazil, and India, are already in significant market corrections although their economies are not slowing as significantly as the European countries. If the world's economic problems persist and deepen, the stage could be set for much lower demand for U.S. farm commodities. Significantly lower demand could lower commodity prices and farmland values. The issues warrant close monitoring and Congressional attention where appropriate.

Comparisons to the 1980s Implosion in Farmland Values

Most ag economists and ag bankers view the current strong farmland values as quite different from the situation that existed in the 1980's farm credit crisis for the reasons stated above.

One question that lenders were asked to be prepared to answer for the symposium mentioned previously was "how would banks respond to smaller profits in agriculture?" I asked a follow up question that I suggest many banks would view as more important: "How would regulators respond to smaller profits in agriculture?"

The regulators are really the tail that wags the dog. The banker's ability to work with his customer is influenced—and heavily at times—by the examiner's position and decisions on the banks farm loan portfolios.

[5] Kansas City Fed: symposium panel: *Weathering Unexpected Downturns,* pg. 43, *http://www.kansascityfed.org/publicat/rscp/Session3.pdf.*

During the 1980s agricultural credit crisis, we were able to restructure debt for farmers when they needed help. The banking examiners at that time were willing to work along with the banker who was working along with the farmer.

The question we ask ourselves is whether a loan will be classified even though it has been rewritten to accommodate a more realistic cash flow and repayment plan. If individual loans are classified, those decisions will do the most damage in the quickest timeframe to a bank's farm loan portfolio.

If there are times of stress in the farm economy in the future, it will be essential for the regulatory environment to acknowledge bankers' ability to work through problem loans as was done in the 1980's farm credit crisis so that bankers can see farmers through tough times.

The 1980s agricultural crisis was our bank's toughest time since the Great Depression. It was also the toughest time for our farmers. Together we worked through those challenges. Our bank was fortunate not to lose any farmers through bankruptcy or foreclosure during those years. Many banks were not so fortunate.

I still remember the day that one of the first agricultural banks in Nebraska failed and was closed. Because I knew the family, I looked in the mirror and reminded myself that, if we weren't careful, this could happen to us.

Between bankers and farmers, there were many sleepless nights—and also for the local agribusinesses. In the end, working together, we worked through the challenges surrounding us.

If Members of Congress wonder how some banking examiners are treating banks today, simply ask community bankers in your district if bank examiners are being overly harsh or overly accommodative or just right with bank examinations. You'll no doubt get an earful.

Farm Credit System (FCS) Abuses

Although the Farm Credit System is under the authority of the Farm Credit Act (Act), and is therefore not part of the credit title of the farm bill, many bankers are complaining about the abuses being facilitated by the FCS and its captive regulator, the Farm Credit Administration (FCA). These abuses include predatory pricing practices and cherry picking of prime customers utilizing their tax and funding advantages as a government sponsored enterprise (GSE). They also include allowing FCS institutions to skirt the legal constraints of the Act through various "pilot programs" to engage in non-farm lending or simply turning a blind eye to instances where System institutions are engaging in activities not authorized by the Act.

ICBA would strongly oppose any farm bill provisions that allow either the FCS or the FCA to further expand the powers of the FCS. ICBA believes that Congress should thoroughly investigate the activities of the FCS and shed light on attempts to circumvent the law and their activities in general. Such investigations would be extremely appropriate at a time when Congress is considering reforming the housing GSE. The FCS is also a GSE that is greatly in need of reform, transparency and accountability. A number of reforms targeting the FCS should be considered.

We respect the Committee's desire not to get into a heated debate on this topic as part of this hearing. However, we believe future Congressional hearings devoted to this topic are warranted. ICBA would be happy to work with the Committee towards this end.

Conclusion

Mr. Chairman and Subcommittee Members, thank you again for devoting time today to discuss the important topic of agricultural credit and its role in the development of the 2012 Farm Bill. We believe there are a number of ways the Committee could adjust USDA authorities under the CONACT and/or through the farm bill that would stretch existing dollars further, resulting in more loans and more credit extended without increasing Federal budget outlays. The result would be more jobs in rural America and a healthier rural economy. We urge your support for the recommendations made in our testimony.

Thank you. I would be pleased to answer any questions.

ATTACHMENT A

Detailed Recommendations for USDA Guaranteed Loan Programs (Further Explanation of Testimony Recommendations)

Guaranteed Farm Loans—The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) has increased user fees in order to essentially make guaranteed farm ownership (FO) program self funding and the operating loan (OL) program much closer to a self-funding level. Therefore, we support the following changes:

- **Remove Term Limits**—ICBA supports removing term limits on guaranteed farm operating loans. Whether a producer needs a guaranteed loan or not is a decision best made between the farmer and his local lender and should not be based on arbitrary timeframes established in Washington. The program is now self-funding due to higher fees. Other farm programs do not have term limits even though they have significant costs in terms of budget outlays.
- It has been estimated that over 4,500 farmers and ranchers nationwide have become ineligible for loan guarantees. An additional 1,500 producers are expected to lose eligibility in 2012 followed by an additional 2,200 operators in 2013. Over 8,200 family farmers and ranchers either have lost or will lose access to FO loans since January 1, 2011.
- **Significantly Increase the Size of Guaranteed Loan Limits**—ICBA would support significantly increasing the size of the current loan limits, now $1.214 million, to accommodate larger-sized family farmers and to meet rising farmland and production expenses. Land values have risen substantially in recent years. For example, farmland values for 2011 escalated 22 percent in the seven-state Seventh Federal Reserve District (Chicago Fed)—the biggest annual increase since 1976. Similarly, cropland values increased 25 percent in 2011 from 2010 levels in the ten-state Kansas City Federal Reserve District.
- In addition, USDA estimated farm production expenses increased by $32.5 billion in 2011, reaching a record of $318 billion. The higher level of production expenses in 2011 represented an increase of over 11 percent from the previous year. Increases in the current loan limit are pegged to the "Prices Paid by Farmers Index" as of the end of August each year. Current projections based on March numbers would increase the loan limit to $1.288 million, a 6% increase.
- The current rate of increase in the loan size of guaranteed farm loan programs does not appear adequate to keep pace with sharp upward spikes in land values or production expenses. This situation, if continued throughout the life of the farm bill, combined with the potential for lower farm income in some years, would exacerbate the potential higher demand for credit as producers seek to keep pace with higher costs.
- Providing USDA the flexibility to raise the loan limit size as necessary would have no budgetary impact on program costs for the FO loan program at this time. However, there may also be ways to increase the size limit for OL loans as discussed below without budgetary costs and for FO loans in a year(s) where there may otherwise be a cost due to a rise in the default rate.
- Since the OL loan program is not totally self-funding, Congress could direct USDA to develop a pilot program to enable individual producers, at their option, to choose a higher loan limit above the regular loan limit for both FO and OL loans if they are willing to pay higher fees, if necessary in a particular year, to offset any additional program costs. This approach could allow some family farmers a choice of a larger loan size to fit their individual farm needs without imposing higher fees on the overall universe of borrowers using the programs. This approach could also be combined with the ability to transfer funds into these programs, if needed, from other FSA farm loan programs with unused or surplus funds.
- Larger loans should target family farmers and the fees should not be unduly burdensome. Additional fees should be a voluntary option to the borrower based on their needs.
- **However, if the loan sizes were increased to better reflect rising production costs and farmland values, USDA would also need a simultaneous increase in the volume of loans they can guarantee.** This is necessary to keep pace with the demand for the same number of loans as currently provided. Therefore, ICBA recommends a significant increase in the volume caps for USDA guaranteed loans (see below).
- **Significantly Increase Guaranteed Loan Volume Caps**—Congress should stipulate that USDA's guaranteed loan programs that are self-funding should either not have volume caps or USDA should have flexibility to raise them significantly above current levels. This will ensure greater credit availability in rural America without unnecessary limitations. Since the guaranteed farm ownership program is now self-funding in terms of program costs, it provides no budget savings to cap the loan volume for this program. In fact, the program may make money in some years. Last year the FSA farm ownership program guaranteed almost $2 billion in loans. With this change, a higher volume could

be achieved to satisfy loan demand without having to transfer funds from other programs.

- **Expanding Eligible Borrowers to Meet Planning Needs**—We urge the Committee to expand who is eligible for guaranteed FO (*ownership/real estate*) loans from the FSA while ensuring such loans continue to go to family farmers. Currently, a borrower must be *both the owner and operator* of the family farm to be eligible for guaranteed FO loans. This requirement does not reflect the evolving structures of how some family farms are managed today for tax planning, inheritance, asset transfers and other managerial purposes.
- For example, the real estate of the family farm may be owned in a trust by the parent(s), while the equipment and other farm assets may be owned in a limited liability company (LLC) with the children. This family farm would be ineligible for a real estate loan even if the children were totally responsible for operating the family farm and would one day receive the assets of the farm—simply because the children do not currently both own and operate the farm.
- This situation also can cause a problem when a child or children want to purchase the farm from a parent but are unable to qualify for a farm ownership loan even though they have been operating the farm and will continue to do so. By contrast, individuals are eligible for guaranteed farm *operating* loans if they are either owners *or* operators of a family farm.
- Eligibility should be expanded to allow instances where operating entities of family sized farms may receive a real estate loan when the real estate is owned by family members who are directly or indirectly members of the operating entity. Protections should ensure that large corporations which own various farm entities do not hide behind vaguely worded family farm, ownership or control definitions.

Guaranteed Business and Industry (B&I) Loans—The OMB's subsidy rate calculations appear to over inflate the costs of administering USDA's B&I loan program which reduces the loan volume available for lenders and their customers. For example, OMB calculates the subsidy rate for B&I loans based on failed loans no longer made (*i.e.,* 1980's ethanol loans of $50 to $100 million) and in size increments no longer permitted. OMB also calculates losses over the entire history of the B&I program dating back to 1974 even though USDA has significantly altered programs during that time to minimize risks. For example, USDA now limits its ethanol loan guarantees for the B&I program to $10 million.

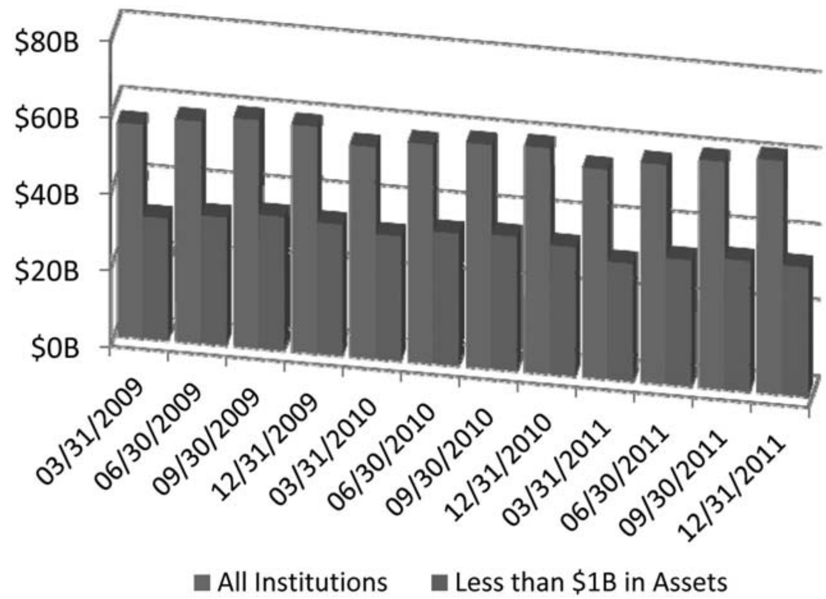
In addition, several loan categories within the B&I program have never had defaults or losses and they therefore amount to "zero-subsidy" loan programs. If USDA were provided flexibility under the CONACT to raise or remove volume caps on these zero-subsidy categories of loan programs, more loans could be made in these no-risk categories. This would allow USDA to apply fees towards other important economic sectors or loan types resulting in an overall increase of guaranteed loan volume without any costs to the Federal Government. This would also increase the number of jobs provided in rural America.

Therefore, our recommendations would be as follows:

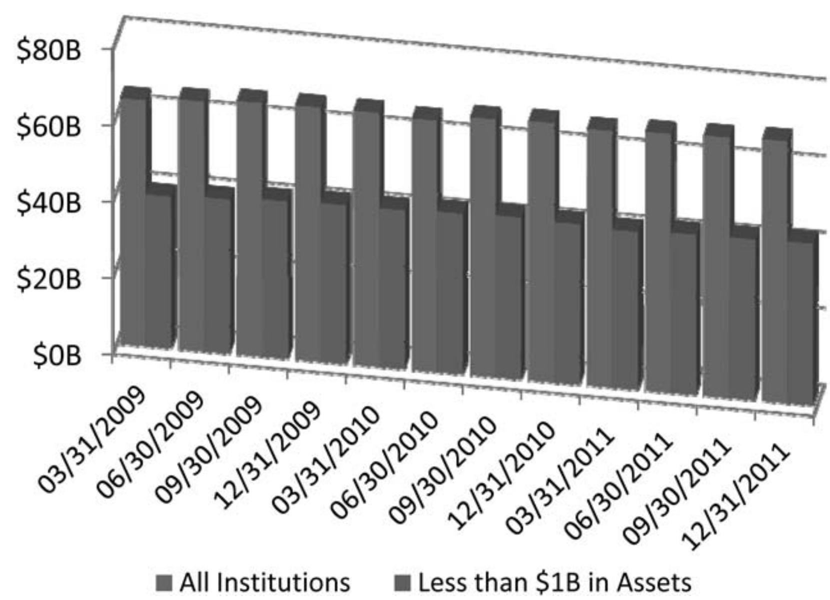
- Amend the CONACT to mandate the B&I subsidy rate calculation not include loans with size limits above those currently being made by USDA (to address the old ethanol loan issues);
- Require subsidy calculations be based on loans and loan types extended no longer than 2 decades ago. A fifteen to twenty year timeframe would be more relevant to USDA's current activities and would reflect adjustments that USDA has made to minimize risks;
- Provide USDA flexibility to increase or remove volume caps for "zero-subsidy" loan categories within the B&I program with a track record of having no defaults or loan losses. This change will increase fee revenue to USDA and allow for new loans in other categories, thus increasing the amount of lending made in rural America through the B&I program.

ATTACHMENT B

U.S. Commercial Banks Ag Operating Loans



U.S. Commercial Banks Farmland Loans



The CHAIRMAN. Thank you for your testimony.

Mr. Williams.

STATEMENT OF MATTHEW H. WILLIAMS, CHAIRMAN AND PRESIDENT, GOTHENBURG STATE BANK; CHAIRMAN-ELECT, AMERICAN BANKERS ASSOCIATION, GOTHENBURG, NE

Mr. WILLIAMS. Chairman Fortenberry, Ranking Member Fudge, Members of the Committee, my name is Matt Williams, and I am Chairman and President of the Gothenburg State Bank in Gothenburg, Nebraska.

We are over 100 years old, and we have $120 million in total assets and nearly $87 million in total loans, 75 percent of which are devoted to either direct or indirect ag lendings.

I am also Chairman-elect of the American Bankers Association, and I appreciate the opportunity to present the views of the ABA on future farm policy. Over 5,500 banks, nearly 75 percent of all banks in our country, reported agriculture loans on their books at the end of last year, with a total outstanding portfolio of $130 billion.

More farmers and ranchers receive credit from the banking industry than any other source. The outcome of the next farm bill is extremely important to my customers in Gothenburg, to my bank and to bankers throughout our country who provide the credit that American agriculture needs and depends on.

The banking industry and the USDA have worked cooperatively for decades to provide access to credit to those farmers and ranchers who have some deficiency in their operation that makes them ineligible for bank credit. Many of these farmers and ranchers who borrow are young and still acquiring the asset base they need to qualify for bank loans. Most of these farmers operate small farms, and the average loan is over $200,000, which is not a large loan by today's farm standards.

I am referring to the farmers and ranchers who borrow money from banks through the guaranteed farm loan programs offered by USDA's Farm Service Agency. Since this is a credit guarantee, banks underwrite and fund the loans, and the USDA provides the bank with a guarantee against potential loss. Over 35,000 farmers and ranchers access credit through this program.

In the 1990s, Congress introduced term limits in the program that limit the eligibility period for farmers and ranchers to participate. I do not know of any comparable eligibility requirements on other Federal loan guarantee programs. Given the volatile nature of agriculture, FSA term limits have caused hardship to those farmers and ranchers who can least weather a financial setback. An increasing number of farmers and ranchers will no longer be eligible for additional credit under the program as the years go by, which will make access to credit more difficult.

ABA recommends the repeal of term limits on the FSA guaranteed loan program.

I have asked many of my farm customers what they really want in the next farm bill. Overwhelmingly, they have told me the Federal Crop Insurance Program must be preserved. In addition to protecting against acts of nature, farmers have the confidence in crop insurance to utilize price hedging and forward contracting because they know that a percentage of their crop is guaranteed. Without this key risk management element, few farmers would be able to hedge or forward contract their crop, thereby eliminating an important aspect of risk reduction through good marketing.

Crop insurance provides my customers with the certainty they need to make a responsible planting and marketing decision and provides my bank with the confidence we need to extend credit. Crop insurance is an important tool that our customers use to manage the enormous risk of agriculture. If Federal Crop Insurance was in some way diminished our ability to lend in many cases would be reduced.

ABA urges this Committee to preserve the Federal Crop Insurance Program.

As we all know, for the past decade, U.S. agriculture has enjoyed one of the longest periods of financial prosperity. The balance sheet for U.S. agriculture is the strongest it has ever been with debt-to-asset ratio of less than ten percent. Farm and ranch net worth is in excess of $2 trillion. A truly strong ag economy helps guarantee a safe and secure supply of food, something all Americans deserve and demand.

The ABA has worked with Congress on every farm bill. We are proud of what we have contributed to the debate and look forward to working with Congress in the future, and we as an industry are very concerned about the young and beginning farmers and being sure that they are a part of the solution. Thank you. I look forward to addressing your questions.

[The prepared statement of Mr. Williams follows:]

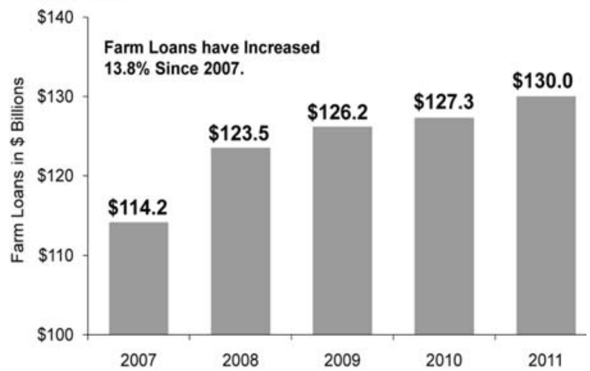
PREPARED STATEMENT OF MATTHEW H. WILLIAMS, CHAIRMAN AND PRESIDENT, GOTHENBURG STATE BANK; CHAIRMAN-ELECT, AMERICAN BANKERS ASSOCIATION, GOTHENBURG, NE

Chairman Fortenberry, Ranking Member Fudge, and Members of the Subcommittee, my name is Matthew H. Williams, and I am the Chairman and President of Gothenburg State Bank in Gothenburg, Nebraska. My great grandfather founded the bank in 1902 and our family has operated it since then. My grandfather served as President of the bank and my father followed him in the job. Since it was founded, Gothenburg State Bank and my family have survived many economic catastrophes including the farm crisis of the 1920s, the Great Depression, the farm crisis of the 1980s, and the Great Recession of 2008/2009. We plan to continue to serve the citizens of central Nebraska for the next 100 years or more. Our bank's tag line is "Still Pioneering" and it is a core value of our company. Today, Gothenburg State Bank has two office locations, assets of $125 million, and employs 28 people. Our loans total nearly $87 million with about 75% of our portfolio connected to agriculture in a direct or indirect way.

I also serve as Chairman-Elect of the American Bankers Association (ABA), and I appreciate the opportunity to present the views of the ABA on future farm policy. The ABA represents banks of all sizes and charters and is the voice of the nation's $13 trillion banking industry and its two million employees. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to agriculture since the founding of our country. Over 5,500 banks—nearly 75% of all banks—reported agricultural loans on their books at year end 2011 with a total outstanding portfolio of nearly $130 billion. More farmers and ranchers receive credit from the banking industry than from any other source. Banks are also major providers of credit to small farms and ranches—banks held over 1.1 million small farm loans, with almost 781,000 loans made for $100,000 or less. In addition to our commitments to farmers and ranchers, thousands of farm dependent businesses—food processors, retailers, transportation companies, storage facilities, manufacturers, *etc.*—receive financing from the banking industry as well.

The outcome of the next Farm Bill is extremely important to my customers in Gothenburg, to my bank, and to bankers throughout the country who provide the credit that American agriculture needs to grow and prosper. We appreciate the opportunity to share our views on future farm policy.

Nearly 75 Percent of Banks Report Farm Loans on Books



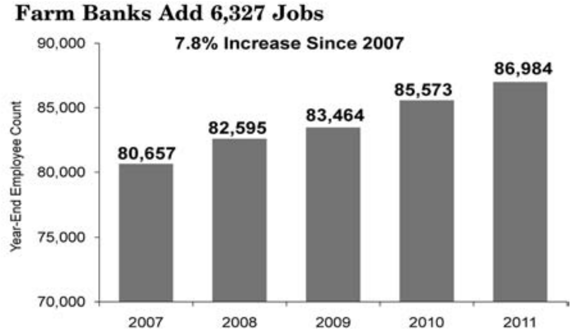
Source: Federal Deposit Insurance Corporation.

Banks are Healthy and are Providing the Credit Agriculture Needs

I mentioned earlier in my statement that over 5,700 banks have agricultural loans on their books. The ABA produces an annual study of banks that have a concentration in agricultural loans—banks that have over 14% of their total loan portfolio in agricultural loans, which includes Gothenburg State Bank. At year end 2011, there were 2,185 banks in this group. ABA defines these banks as “Farm Banks.” I would like to share a few of the findings from the 2011 study:

- Farm Banks are generally small institutions. The median sized farm bank had $90.6 million in assets.
- Farm Banks operate over 7,534 locations throughout rural America.
- Farm Banks employ 86,984 rural Americans and they increased employment by 6,327 employees since 2007.
- Farm Banks increased farm lending in 2011 by 5.6% to $72.3 billion.

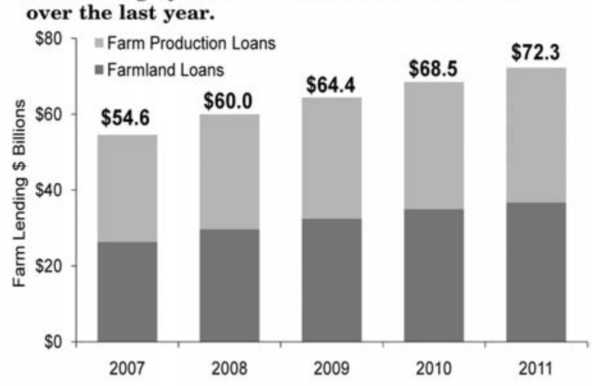
Farm Banks Add 6,327 Jobs



Source: Federal Deposit Insurance Corporation.

- Approximately $1 in every $3 lent by a Farm Bank was an agricultural loan. You can see from these numbers that a strong agricultural economy is essential to the success of these institutions.
- Farm Banks reported a strong increase in earnings and improved asset quality in 2011, and over 99% of all Farm Banks met the regulatory requirement of being well capitalized in 2011, the highest capital rating.

Approximately $1 in Every $3 Lent by a Farm Bank Is a Farm Loan
Farm lending by Farm Banks has increased 5.6% over the last year.



Source: Federal Deposit Insurance Corporation.

The Farm Economy is Strong

2011 was a record breaking year for my customers and for most farmers in the country. USDA reported that net cash income in 2011 was $110 billion, nearly a 20% increase over 2010. While the USDA forecast for 2012 is not quite as good as 2011, net cash income is projected to reach $96.3 billion, well above the average set over the past 10 years. Prosperity has transformed the balance sheets of many of my customers and of many farmers and ranchers throughout the country.

Agricultural Real Estate Values Have Increased Due to Farm Prosperity, Not Leveraged Speculation

There has been a great deal of focus by many on what has been happening with farmland values. The question most asked is, "Are we looking at another asset bubble?" There is no doubt that farmland values have escalated dramatically over the past several years. There are many factors behind this significant increase in land values, and fortunately, excessive lending by banks is not one of them.

Managing agricultural loan risk is what we do at Gothenburg State Bank, and what bankers do all over the country. To give you a sense of our posture towards farm real estate lending, please consider some of the standards at our bank:

- We have very conservative underwriting standards for real estate lending and these have not changed for a decade or more.
- Repayment—ability is the primary driver of our underwriting—if the request does not cash flow, we do not do it—regardless of the collateral position of the customer.
- We only lend a maximum of 60% of the appraised value of the land (loan-to-value).
- In our current farmland loan portfolio, our average loan-to-value is about 40%.
- Even though land values have increased to $6,000 per acre in our service area, we use $3,500 per acre for credit analysis purposes when calculating net worth position, debt to assets, and other key ratios.
- I cannot overstate the value of the technology that my bank and that most banks have invested in that allows us to do credit analysis and run "what if" scenarios almost instantaneously. In a recent exercise at our bank, we projected that a 40% drop in real estate values would reduce the balance sheet net worth of our customers, but it had very little or no effect on the quality of our loan portfolio. Our bank's risk to the FDIC insurance fund would not change.

Our farm and ranch customers, and the farm and ranch customers of many other banks, have enormous skin in the game in their operations. Many are paying cash for real estate. Leverage levels are at or near a historic low. Prosperity is driving the demand for farmland and retained earnings are providing the cash to purchase it.

ABA's Recommendations to Congress for the next Farm Bill

Repeal Term Limits on the USDA Farm Service Agency Guaranteed Loan Program

I have spoken about the prosperity that many farmers and ranchers have enjoyed over the past decade. However, for many reasons, that prosperity has not benefited all farmers or ranchers. For over forty years the banking industry and the USDA have worked cooperatively to provide access to credit to those farmers and ranchers who have some deficiency in their operation that makes them ineligible for bank credit. Many of these farmers and ranchers who borrow are young and are still acquiring the asset base they need to be able to qualify for bank loans. Most of these farmers operate small farms because the average loan is under $200,000 which is not a large farm loan today given the capital that modern agriculture demands. Despite the challenges these young and small farmers and ranchers face, they are conscientious customers who handle their credit obligations very well.

I am referring to the farmers and ranchers who borrow money from banks through the guaranteed farm loan programs offered by the USDA's Farm Service Agency (FSA). Since it is a credit guaranty, banks like mine underwrite and fund the loan and the USDA provides the bank with a guaranty against loss on the loan. Over 35,000 farmers and ranchers access credit through this program. Banks are not the only participants as Farm Credit System lenders, credit unions, state agricultural credit programs, and others work with USDA to provide credit to these farmers and ranchers.

The program has been a resounding success. Each year a limited appropriation is leveraged into a significant program that, in many cases, is the only way these farmers and ranchers can access credit. At the end of FY 2011, the portfolio of guaranteed farm and ranch loans exceeded $10 billion. Even though these customers have some financial statement or operating deficiency, they are very conscientious borrowers. FY 2011 year-end loan delinquencies were 1.43% and losses in the program were .50% of outstanding loans. From a delinquency and loan loss perspective, this is a very sound portfolio of loans.

In the early 1990s, Congress inserted "term limits" into the program that only allowed farmers and ranchers a limited period of eligibility for the program. While the goal of term limits was understandable, it has created uncertainty for many farmers and ranchers. I should also note that I do not know of any comparable eligibility limitation in other Federal loan guaranty programs. Given the volatile nature of the agricultural economy, the practical application of FSA term limits has caused hardship to those farmers and ranchers who can least weather a financial setback. As a result of term limits, an increasing number of farmers and ranchers are no longer eligible for additional credit under the program, which could make access to credit in the future very difficult, if not impossible, for these producers.

For this reason, the American Bankers Association (and many other lender and farm organizations) recommends the repeal of term limits on the USDA, Farm Service Agency Guaranteed Loan Program.

Preserve the Federal Crop Insurance Program

As this Committee seeks ways to craft a new farm bill that is responsible to the budgetary needs of our country, as well as to continue to provide farmers and ranchers with some measure of protection against catastrophic losses, I want to remind you that Federal Crop Insurance provides my customers with the certainty they need to make responsible planting decisions and provides my bank with the confidence we need to extend credit to our customers. Our job at the bank is to manage risk and Federal Crop Insurance is an important tool that we use to manage the enormous risk in today's agriculture. Input costs to plant crops today are staggering. My customers use credit from the bank to help them get a crop planted and harvested. If Federal Crop Insurance was in some way diminished, our ability to lend—in some cases—would be curtailed.

In preparation for this hearing I spoke to many of my farm customers about what they would seek in the next farm bill. Overwhelmingly they said the current crop insurance program should be preserved and strengthened. My customers, and all farmers and ranchers, are extremely confident and self-sufficient people. It takes a great optimist to plant a crop, work on it all year, harvest it, and then sell it. But, no matter how optimistic farmers are, they can not control the risks presented to them by weather. In addition to protecting against acts of nature, farmers have the confidence in Crop Insurance to utilize price risk hedging techniques because they know that a percentage of their crop is guaranteed. Without this key risk management element, fewer farmers would hedge their crop prices and more of them would be restricted to selling at harvest, when prices are typically at their lowest.

For these reasons, the ABA urges this Committee to preserve the Federal Crop Insurance program. The program is widely accepted by farmers as a key element of a solid risk management program that they can take to the bank.

The Banking Industry is Concerned about the Risk a Government Sponsored Enterprise Poses to the Rural Economy

The market for agricultural credit is very competitive. I compete with several other banks in my service area, finance companies from all of the major farm equipment manufacturers, several international banks, credit unions, life insurance companies, and finance companies owned by seed and other supply companies to name a few. However, the most troublesome competitor I face is the taxpayer-backed and tax-advantaged Federal Farm Credit System (FCS). The FCS was chartered by Congress in 1916 as a borrower-owned cooperative farm lender at a time when banks did not have the legal authority to make farm real estate loans.

Today the FCS is a large and complex financial services business with over $230 billion in assets. It is profitable—it earned $3.9 billion in 2011. It is tax-advantaged and enjoyed a combined local, state, and Federal tax rate in 2011 of 6.4%. In spite of their size, current profitability and tax advantages, the Farm Credit System presents the same kind of liability to the American taxpayer as Fannie Mae and Freddie Mac. As a Government Sponsored Enterprise (GSE) like Fannie Mae and Freddie Mac, the American taxpayer is the ultimate backstop should the Farm Credit System develop financial problems. The potential liability that GSEs pose to taxpayers became very real in 2008 when the Federal Government seized Fannie Mae and Freddie Mac. An earlier near collapse of the Federal Farm Credit System in the late 1980s, as a result of their irresponsible farm lending, foreshadowed what taxpayers would confront more than twenty years later with the housing GSEs. Congress will take up the question about what to do with the housing GSEs in an effort to restructure home mortgage finance in the United States. I urge this Committee to include the Federal Farm Credit System in those discussions as there is no difference between the risk the housing GSEs pose to our economy and the risk the Farm Credit System poses to our rural economy.

The Banking Industry is Well Positioned to Meet Agriculture's Needs

For the past decade, U.S. agriculture has enjoyed one of the longest periods of financial prosperity in history. It has been an exciting time in farm country. Financially, American agriculture has never been stronger. In 2011, many American farmers and ranchers enjoyed their most profitable year ever. The balance sheet for U.S. agriculture is the strongest it has ever been with a debt-to-asset ratio of less than ten percent. Farm and ranch net worth is in excess of $2 trillion. This unprecedented high net worth is due in part to a robust increase in farm asset values (mainly farm real estate), but is equally due to solid earned net worth as farmers have used their excess cash profits to retire debt and to acquire additional equipment and additional land. As a result, farmers and ranchers today have the capacity to tap their equity should there be a significant decline in farm profitability resulting in diminished cash flows. While no farmer or rancher wants to take on additional debt, the strength of the U.S. farm and ranch balance sheet gives producers options to do so if the need arises.

When the agricultural economy collapsed in the middle 1980s, the banking industry worked with farmers and ranchers to restructure their businesses and to rebuild the agricultural economy. Since that time banks have provided the majority of agricultural credit to farmers and ranchers. While other lenders shrank their portfolios or exited the business altogether, banks gained market share by expanding lending, just as we did following the economic crisis of 2008/2009. We saw opportunity where others did not.

The American Bankers Association has worked with Congress on *every* farm bill ever passed. We are proud of what we have contributed to the debate in the past and we look forward to working with Congress in the future as you craft the next farm legislation.

Thank you for the opportunity to express the views of the American Bankers Association. I would be happy to answer any questions that you may have.

The CHAIRMAN. Thank you, Mr. Williams, for your testimony.

Mr. Walton.

I will remind the panel that we have been called for votes, and I believe we can get through the entire panel's testimony before we have to leave, but then we will come back for questions.

Mr. Walton.

STATEMENT OF MICHAEL G. WALTON, URBAN FARMER; OWNER, TUNNEL VISION HOOPS; CO-FOUNDER, NEO RESTORATION ALLIANCE, SOUTH EUCLID, OH

Mr. WALTON. Chairman Fortenberry, Ranking Member Fudge, and Committee Members, thank you for inviting me to testify today.

I am Michael Walton from Cleveland. I am a trainer, facilitator, counselor and urban farmer. I am a Co-Founder, with my wife Veronica, of NEO Restoration Alliance, an environmental justice and education organization.

I am also Founding partner of Tunnel Vision Hoops, a local hoop house, design, fabrication and installation company.

I am the son of a steelworker, and I remember growing up in the 1960s, when greater Cleveland had over one million residents and my father and all of his neighbors had jobs.

Now our population is less than half a million, and many are unemployed or under employed. We have more than 15,000 vacant parcels or abandoned houses in our community.

To address these issues, Veronica and I hosted a Green Jobs Now! event, a nationwide call to action spearheaded by Van Jones back in 2008. During that time, we explored job creation in the green industry, jobs that required people, not machines, sustainability, and those that could not be shipped overseas or across the border.

Urban agriculture and storm water management became our focus. I completed a market gardener training course at the Ohio State Extension, and attended workshops with Will Allen of Growing Power in Milwaukee.

In the spring of 2009, we began our first urban agriculture venture called ClearLake Farm. We financed our farm with grants we received because we focus on job training, social justice and community building. We see urban agriculture as an effective way to restore lives and land in our community. We invested much of our own time and money farming before work, at lunch, evenings and weekends. We have to support the agriculture business until it produces enough to be self-sustaining.

We measure our success by a triple bottom line in which sustainability of people, planet and profit are indicators to determine success. We have been successful with job training programs for women living in a drug treatment center, urban youth summer job programs and community building and beautification, but this hard work has not yet produced a profit.

A major obstacle for greater Cleveland farmers is land ownership. Current policies are not beneficial for urban agriculture. Many farmers, myself included, are not land owners. Most have nonbinding agreements or 5 year leases. Because of the lack of ownership, general infrastructure needs become high risk and sometimes a poor investment.

For example, our initial farm, ClearLake Farm, was located on the private property of the drug treatment center where I work as a counselor. The board of the organization initially agreed to support the development of a farm on their property as part of a green initiative. The first few years of farming yielded bountiful crops, bigger than the demand for the product. This scenario of high yield with little distribution created a low-income farm, and the property owners decided it was unreasonable to keep the farm because they did not see the value in the triple bottom line. As a result, a hoop house with a rain harvesting system was removed along with raised beds, compost bins, irrigation system, herb gardens, rain gardens and dozens of crops.

Another roadblock is insurance, because insurance companies lack information and policies for insuring urban farmers. We called the national leader in farm insurance, and the agent called back and told us we would be pioneers because her company was not prepared to insure small plot urban agriculture, farms without buildings or substantial equipment for them to insure or without purchase agreements to bank on.

Many restaurants and chain grocery stores require product liability insurance for the vendors, and without this insurance, we can't go to lenders or insurance agents with purchase agreements as collateral.

Obtaining USDA loans and benefitting from credit programs would be useful to urban farmers with sufficient land and crop value. Urban farmers in greater Cleveland have benefitted from Federal grant programs that have been managed and created urban incubators or given $2,000 start-up grants.

Congresswoman Fudge introduced us to FSA and USDA loan and credit programs in March of 2012. Prior to the introductory workshop, the two financing programs we had knowledge of were not suitable for the needs of new small farmers. The first, a City of Cleveland tool and equipment reimbursement program, and secondly the USDA EQIP program. The criteria for obtaining funds are too restrictive, requiring income in advance or construction prior to distribution of funds.

Urban farmers need access to larger plots of land that we can own so that we can create the scale that will generate enough income that we could be legitimately considered a credit risk. We need simplified loan applications and programs targeted to farmers who are mostly part-time and bi-vocational. We need loans made to farmers' collectives or cooperatives so we can purchase and share large tools, like tractors. To service large-scale customers, we need coolers, and storage space and refrigerated trucks would be too costly for an individual but reasonable for a collective. If these programs already exist, we need to know about them in specific detail. If not, they are what we need you to create.

Please consider urban farmers and our credit needs as you develop the next farm bill. Urban farmers are real farmers who create real jobs and grow fresh produce to help our cities. We need and deserve the same assistance given to rural farmers so that we can grow and thrive. Thank you.

[The prepared statement of Mr. Walton follows:]

PREPARED STATEMENT OF MICHAEL G. WALTON, URBAN FARMER; OWNER, TUNNEL VISION HOOPS; CO-FOUNDER, NEO RESTORATION ALLIANCE, SOUTH EUCLID, OH

Chairman Fortenberry, Ranking Member Fudge and Committee Members, thank you for inviting me to testify today.

I am Michael Walton from Cleveland, Ohio. I am a trainer, facilitator, counselor and urban farmer. I am the co-founder, with my wife Veronica, of NEO Restoration Alliance, an Environmental Justice and Education organization. I am also a founding partner of Tunnel Vision Hoops, a local Hoop House, design, fabrication and installation company.

I am the son of a steelworker, and I remember growing up in the 1960s when Greater Cleveland had over a million residents, and my father and all of our neighbors had jobs. Now our population is less than half a million and many are unemployed or under-employed. We have more than 15,000 vacant parcels or abandoned houses in our county.

To address these issues, Veronica and I hosted a "Green Jobs Now!" event, a nationwide call to action spearheaded by Van Jones. During that time we explored job creation in the Green Industry. Jobs that required people, not machines, sustainability, and those that could not be shipped overseas or across the border. Urban agriculture and storm-water management became our focus.

I completed a Market Gardner training course at The Ohio State Extension and attended workshops with Will Allen of Growing Power in Milwaukee. While attending, I learned aquaponics and intensive growing techniques, and in the spring of 2009, we began our first urban agriculture venture, ClearLake Farm.

We have financed our farm business with grants we received because we focus on job training, social justice, and community building. We see urban agriculture as an effective way to restore lives and land in our community. These funding sources are appreciated and needed; however, they are not enough. We invested much of our time and money, farming before work, at lunch time, evenings and weekends. Our family has suffered great hardship because we need to work other jobs for 20 to 40 hours a week to survive. We must support the agriculture business until it produces enough to be self-sustaining.

We measure our success by a triple bottom line in which sustainability of people, planet and profit are indicators to determine success. We have been successful with job training programs for women living in a drug treatment center, urban youth summer jobs programs, and community building and beautification. This hard work has yet to produce a profit.

A major obstacle for Cleveland farmers is land ownership. Current policies are not beneficial for urban agriculture. Many farmers, myself included, are not land owners. Most have non-binding arrangements or 5 year leases. Because of the lack of ownership, general infrastructure needs become high risk and sometimes a poor investment. For example, our initial farm, Clearlake Farm was located on the private property of the drug treatment center where I work. The Board for the organization initially agreed to support the development of a farm on their property as part of a green initiative. The first 2 years of farming yielded bountiful crops, bigger than the demand for the product. This scenario of high yield with little distribution created a low income farm. The property owners found it unreasonable to keep the farm because they did not see the value in the triple bottom line. As a result, a hoop house with a rain harvesting system was removed, along with raised beds, compost bins, irrigation systems, herb gardens, rain gardens and dozens of crops. This nonbinding agreement was a great loss to the community and the land.

Another roadblock is insurance, because the insurance companies lack information and policies for insuring urban farmers. We called a national leader in farm insurance, and their agent called back to tell us we would be pioneers, because her company was not prepared to insure small plot urban agriculture, farms without buildings or substantial equipment for them to insure, or without purchase agreements to bank on. Many restaurants and chain grocery stores require product liability insurance from their vendors. With out this insurance, we can't go to lenders or insurance agents with purchase agreements as collateral.

Obtaining USDA loans and benefiting from credit programs would be useful to urban farmers with sufficient land and crop value. Being able to grow and sell enough produce to secure and repay a loan is another major obstacle for small urban farms. Urban farmers in Greater Cleveland have benefitted more from Federal grant programs that have been managed by local land management organizations and The Ohio State Extension. These programs have granted up to $20,000 for year one start-ups, or creating an urban agriculture incubator for urban farmers. Regrettably, none of these programs have produced individual farms of 2 acres or more. Farm size is still too small to reasonably use a $30,000 40 horsepower tractor with earth moving and farming attachments like the ones used by rural farmers.

Congresswoman Fudge introduced us to the FSA and USDA loan and credit programs in March 2012. Prior to the introductory workshop, the two financing programs we had knowledge of were not suitable for the needs of new small farmers. The first, a City of Cleveland tool and equipment reimbursement program and second, the USDA EQIP program. Their criteria for obtaining funds are too restrictive; requiring income in advance, or construction prior to distribution of funds.

Urban farmers also need access to larger plots of land that we can own, so that we can create the scale that will generate enough income that we could be legitimately considered a reasonable credit risk. We need simplified loan applications and programs targeted to farmers who are mostly part-time and bi-vocational.

We need loans made to farmers collectives or cooperatives so we can purchase and share large tools like tractors. To service large scale customers, we need coolers and storage space and refrigerated trucks that would be too costly for an individual but reasonable for a collective.

If these programs already exist, we need to know about them in specific detail. If not, they are what we need you to create. Please consider urban farmers and our credit needs as you develop the next farm bill. Urban farmers are real farmers who can create jobs and grow fresh produce to help our cities. We need and deserve the same assistance given to rural farmers so we can grow and thrive.

Thank you.

The CHAIRMAN. Thank you, Mr. Walton.

Mr. Doerr.

STATEMENT OF JUSTIN D. DOERR, BEGINNING FARMER, PLAINVIEW, NE

Mr. DOERR. Good morning, Chairman Fortenberry, Ranking Member Fudge, and Members of the House Agriculture Subcommittee.

Thank you for the opportunity to testify about the value of Federal credit programs that are absolutely critical in helping beginning farmers get started in agriculture.

I believe these credit programs and other programs targeted specifically at new farmers are very important investments the farm bill can make in ensuring that young farmers like myself have the tools and resources they need so we can successfully contribute to our local farm communities, spur local economic development, preserve our natural resource base and do our part in ensuring our nation's food security.

I would also like to thank the National Sustainable Agriculture Coalition and the Center for Rural Affairs for helping me make the trip out here to speak with you today.

My name is Justin door Doerr. I am a beginning farmer from Nebraska and an Iraq war veteran. I grew up on a small farm in Plainview, where we raised hogs, cattle and hay. After high school, I joined the Army and moved to Texas. During this time, things got tough on the farm, so dad sold the livestock and rented out the farm ground.

When I got back from the service, I wanted to move home and farm. What I found later was I had the desire to farm but did not have the means, as I lacked the capital and resources to begin farming after the folks sold their operation. Accessibility to land is likely the first obstacle that many who wish to farm will face. With current land prices skyrocketing, coupled with uncertain guarantees, such as revenue protection for beginners, it is often extremely difficult to find affordable farmable ground that you can rent at a price you can cash flow.

When I was looking for ground to add to my operation, one program I was interested in using was the Conservation Reserve Program Transition Incentive Program. Unfortunately, as of early this spring, all the funding for this program has been allocated, so even if I was able to find acres to rent, I would be unable to encourage that landowner to work with me through this incentive because all of the $25 million provided to this program in the last farm bill has already been obligated.

I also found that it was hard to find ground that was eligible for the program. The Farm Service Agency needs to improve outreach in this regard and find a localized and direct way to bring beginning farmers and CRP landowners together. As a beginning farmer, access to capital is very important and crucial to the success of almost any farming operation, and oftentimes access to farmland hinges on whether or not a new farmer is able to get a loan to buy land, if and when that farmland comes up for sale. The down payment by itself immediately prices me out of almost every farmland real estate market, especially for a young farmer who is just starting out and lacks the accrued savings necessary to be able to put money towards a down payment.

One Federal program that can be extremely helpful to young farmers like myself who are unable to make a substantial down payment is the Down Payment Loan Program, which is a joint financing direct farm ownership loan program administered by the Farm Service Agency. This Federal program makes loans specifically to beginning and socially disadvantaged farmers and ranchers and requires a lower down payment than most commercial farm ownership loans.

In addition to the rising value of farmland across the country, the current rise in the cost of livestock and farm equipment can also be very cost prohibitive to new farmers looking to purchase additional breeding stock or crucial pieces of equipment for their farming operation. Oftentimes the same or very similar inputs in equipment are needed by a beginning farmer as are needed by a more established operation. The beginning farmer, however, often purchases the inputs and equipment at a higher price than a larger established operation that can buy in larger quantities.

The Beginning Farmer and Rancher Individual Development Accounts Program is another farm bill credit program that can offer a solution to these types of financial obstacles. This innovative matched savings program has been around since the 2008 Farm Bill, but despite funding being requested by the USDA, it unfortunately has yet to receive an appropriations and thus has not been available as a potential resource for young farmers who lack the capital to purchase inputs or save up on a down payment for their first farm.

At the moment, my farm is fragile. If land values continue to climb and if commodity prices begin to slip, things will get real hard. That is why it is important to include the provisions from the Beginning Farmer and Rancher Opportunity Act in the 2012 Farm Bill. As a beginning farmer our needs are great and the competition is stiff and heavily subsidized. These provisions are cross-cutting and address access to credit, land, conservation programs, training programs and more. These provisions will give me the tools necessary to strengthen my farm and make it more viable during my early years.

[The prepared statement of Mr. Doerr follows:]

PREPARED STATEMENT OF JUSTIN D. DOERR, BEGINNING FARMER, PLAINVIEW, NE

Good morning, Chairman Fortenberry, Ranking Member Fudge, and Members of the House Agriculture Subcommittee on Department Operations, Oversight, and Credit. Thank you for the opportunity to testify about the value of Federal credit programs that are absolutely critical in helping beginning farmers get started in agriculture. I believe these credit programs and other programs targeted specifically at new farmers are very important investments the farm bill can make in ensuring that young farmers like myself have the tools and resources they need so we can successfully contribute to our local farm economies, spur rural economic development, preserve our natural resource base, and do our part in ensuring our nation's food security.

My name is Justin Doerr, and I am a beginning farmer from Nebraska and an Iraq WarVeteran. I grew up on a small farm in Plainview where we raised hogs, cattle, and some hay. After high school I joined the Army and moved to Texas. During this time, things got tough on the farm so Dad sold the livestock and rented out the farm ground. When I got back from the service I wanted to move home and farm. What I found later was I had the desire to farm but did not have the means, as I lacked the capital and resources to begin farming after the folks sold their operation.

Instead of immediately pursuing my plan of farming, I went to college and began working for a hospital as a CAD Designer. During this time I began laying the foundation for my future farming operation. My farm got its start after I found 40 acres of hay ground to rent from a neighbor. I borrowed equipment from Dad to harvest the hay; then sold it to a local cattle feeder. With the money I made from the sale, I was able to rent an additional 10 acres from my parents and sow it to alfalfa hay. With the revenue I made from the new alfalfa field, I was able to purchase 30 sheep and feed them through the winter. This spring, I was able to rent an additional 80 acres of farm ground that I will be planting to corn and soybeans.

CRP–TIP

When I finally decided I wanted to make a career out of farming over 6 years ago, I ran into several obstacles as a beginning farmer, despite the fact that I came from a farm background. Accessibility to land is likely the first obstacle that many who wish to farm will face. With current land prices skyrocketing in my area, and in most farming regions across the country, it is often extremely difficult to find affordable farmable ground that you can rent at a price that will cash flow.

When I was looking for ground to add to my operation, one farm bill program I was interested in using was the ***Conservation Reserve Program—Transition Incentive Program (CRP–TIP).*** The aim of this Federal program is to connect beginning farmers with retiring farmers who own farmland that is coming out of the Conservation Reserve Program. The program also requires good conservation on the part of the new farmer or rancher.

Since starting in 2010, demand for this program has grown tremendously and over 1,600 beginning farmers have used this program to access over 260,000 acres of farmland to begin or expand their farming operation, including 145 farmers on over 15,000 acres in my own state of Nebraska.

Unfortunately, as of early this spring, all of the funding provided by the 2008 Farm Bill for this program has been obligated, so even if I was able to find acres to rent, I would be unable to encourage that landowner to work with me through this incentive. Demand for this program will only continue to increase in the coming years, as more land begins to come out of the CRP and back into production. In order to make sure funds for this program continue to be available for any beginner that wants to take advantage of this program to access land to start their farming operation, Congress needs to ensure adequate funding is secured in the upcoming farm bill so that FSA does not run out of funding midway through the next 5 year farm bill cycle.

I also found that it was hard to find ground that was eligible for the program. Although there are some Federal efforts to provide searchable databases to connect retiring landowners with beginning farmers, there isn't an efficient way to find the CRP land that is under a contract about to expire. While you can look at a plat map to determine who owns the land, there is no way of knowing when the CRP contract expires. The FSA needs to improve outreach in this regard and find a localized and direct way to bring beginning farmers and CRP landowners together.

Down Payment Loans

As a beginning farmer, access to capital is also very important and crucial to the success of almost any farming operation, and oftentimes access to farm land hinges on whether or not a new farmer is able to get a loan to buy land if and when farm land comes up for sale. After speaking with my local commercial banker, I was told if I was interested in purchasing land I would need to put have at least a 30 percent down payment on the purchase price of the land. The down payment, by itself, immediately prices me out of almost every farm land real estate market. This will prove true for most young farmers who are just starting out and lack the accrued savings necessary to be able to put money down towards a down payment.

One Federal program that can be extremely helpful to young farmers like myself who are unable to make a substantial down payment is the ***Down Payment Loan Program,*** which is a joint-financing direct farm ownership loan program administered by the Farm Service Agency. This Federal program makes loans specifically to beginning and socially disadvantaged farmers and ranchers and requires a lower down payment than most commercial farm ownership loans.

Under this program, a beginning farmer provides a five percent (rather than the more typical 30 percent) down payment, and the rest of the loan principal is split between the Farm Service Agency and a private lender. This excellent farm bill program helps beginning farmers enter the real estate market that otherwise is more often than not beyond their reach.

Since 1994, the Down Payment Loan Program has helped over 5,000 new farmers across the country purchase farms. Given scarce Federal resources, it would be extremely helpful if priority be given to these and other joint financing loans, thereby allowing the Farm Service Agency to provide the greatest amount of financial assistance to beginning farmers for a given amount of Federal funding. By leveraging commercial loans with Federal dollars, the taxpayer would get the most "bang for the buck" by helping the most number of farmers access credit needed to purchase farm land.

The Beginning Farmer and Rancher Opportunity Act includes such a priority for participation loans and it would be very helpful for this Committee to include that provision in the new farm bill. The Opportunity Act also increases the value of farmland that may be financed through Down Payment loans, another provision that should be incorporated into the new farm bill.

Individual Development Accounts

In addition to the rising value of farm land across the country, the current rise in the cost of livestock and farm equipment can also become cost prohibitive to new farmers looking to purchase additional breeding stock or crucial pieces of equipment for their farming operations. Often times the same or very similar inputs and equipment are needed by a beginning farmer as are needed by a more established operation. The beginning farmer, however, often purchases the inputs and equipment at a higher price than a larger established operation that can buy in larger quantities.

The ***Beginning Farmer and Rancher Individual Development Accounts*** program is another farm bill credit program that can offer a solution to these types of financial obstacles. This innovative matched savings program has been around since the 2008 Farm Bill, but despite annual funding requests by USDA, it unfortunately has yet to receive an appropriation and thus has not been available as a potential resource for young farmers who lack the capital to purchase inputs or save up for a down payment for their first farm.

This matched savings account, modeled after a similar program that has been successful in helping urban and rural residents save up for a down payment on their first home, would help beginning farmers save and accrue capital needed to purchase additional livestock, farm inputs or that crucial piece of equipment when their operations need it. I would urge this Committee to include farm bill funding for this innovative IDA program.

FSA Microloans

When I needed an operating loan to cover some of the daily expenses associated with operating a farm, I first applied for a loan through the Farm Service Agency. The paperwork during the application process was almost overbearing, but the biggest thing that was keeping me from getting a loan through FSA was the uncertainty of whether Federal financing would even be available. Even if my application had been approved as a beginning farmer loan applicant, Federal appropriations had not yet been passed and the amount and timing of funds available for Federal loan programs were unclear.

If I had been working with a landlord and negotiated a fair rental payment, the last thing I want to tell them is to wait additional months for their first rent check because my operating loan hadn't been funded yet. The landlord already assumes risk when they choose to rent to a beginning farmer and are doing a great service to the next generation of farmers. It would most certainly be easier and involve less risk for landowners to simply rent to a larger, well-capitalized operation that can spread its expenses over many acres.

While there may not be an easy cure for appropriations bills being passed well after the start of the fiscal year, one important item in the Beginning Farmer and Rancher Opportunity Act that could help people in my position is the proposed new ***Microloan*** program. Under this provision, smaller loans could be made, with less delay and less paperwork, to assist young and beginning farmers whose credit needs may often be more urgent but also considerably more modest than other borrowers. Authorizing microloans within the direct operating loan program is a simple but important step this Committee could take to improve credit availability for new farmers.

Whole Farm Crop Insurance

Another obstacle I have run into with my operation is the availability of crop insurance for beginners and particularly for beginners with diversified operations. One way I've found I can keep my operation financially viable in these crucial first few years is to participate in niche markets that command a higher price premium, such as sheep and forage production. I would like to expand my alfalfa hay acres but I am unable to cover my risk with the current array of crop insurance policies available in my area.

Producers of diversified, non-commodity crops and livestock need to be able to manage their risks just the same as commodity producers do under the current suite of farm safety net programs. A crop insurance policy that offers a whole farm revenue protection plan to protect against low revenue due to unavoidable natural disasters and market fluctuations would allow me to insure all the crops I grow on my farm, including my alfalfa for which I'm currently not able to buy coverage.

Although there are some products that are currently available for diversified operations, they are not available nationwide. A whole farm revenue insurance policy that is available universally across the country would allow me to cover my risk in the event of loss. Adequate risk management strategies are especially critical for beginning farmers, as they have limited equity to back them up when they suffer a loss. I understand there is a proposal for ***Whole Farm Risk Management Insurance*** in the Senate Committee-passed farm bill, which I would urge you to support.

Veterans

I mentioned earlier, when I finished my time with the Army I wanted to come home and farm, and what I found was I did not have the means. To find resources, government programs, and organizations that were available to help me get started I relied heavily on Google. Having a dedicated staff within the Department of Agriculture—such as the ***Veterans Agricultural Liaison*** proposal in the Beginning Farmer and Rancher Opportunity Act—would have helped someone in my position to access the tools and resources necessary to begin my farm business plan. I would have had someone who could have helped me navigate the web of Federal programs that might assist military veterans who are interested in farming, and who would advocate for programs and policies that serve the interests of our nation's veterans. The Senate Agriculture Committee's farm bill wisely includes a position charged with educating returning veterans about new farmer training and education programs and how they interface with veterans programs.

Beginning Farmer and Rancher Development Program

The ***Beginning Farmer and Rancher Development Program*** (BFRDP) is the centerpiece of farm bill support for the next generation of farmers. BFRDP provides grants to institutions and organizations that provide training, education, and outreach programs to beginning farmers across the country. Projects can include financial and business training programs, risk management education, marketing strategies, mentoring and apprenticeship programs, and "land link" programs that connect beginning farmers with retiring landowners.

To date, the program has enabled 105 educational institutions and organizations to assist new farmers in 48 states across the country, and has been incredibly successful in ensuring that the next generation of farmers is armed with the knowledge, training, and resources they need to establish financial viable farming operations.

I am pleased to hear that the farm bill approved by the Senate Agriculture Committee includes a new priority on veteran farmers to ensure training and agricultural rehabilitation programs are targeted to our specific needs as veterans. This is a welcome addition.

Funding for the program needs to keep pace with demand. The Senate Committee-passed farm bill would unfortunately cut funding in half from current levels. There could be no higher priority in my opinion than for this Committee to increase rather than decrease funding for the Beginning Farmer and Rancher Development Program.

The good news is more young people are interested in farming careers now than in quite some time, and I am pleased to say that number includes quite a few returning veterans. Now is not the time to close the door on the training and linking programs these young farmers need. I urge you to grasp the opportunity to not only continue the BFRDP, but to modestly increase its funding per year so that more young farmers can be served and we can begin to reverse the ongoing aging of American agriculture before it is too late.

Conclusion

When I decided I wanted to farm, the prospects looked rather dire. When I looked across the landscape all I saw was large equipment and even larger farms. I wasn't sure if there would be room in the farm environment for me. How was I going to be able to compete? I have found through hard work, determination, and creativity there is still some room for a beginner. It isn't easy. I am working three jobs to help get my operation going. I am slowly building capital, paying off expenses and investing sweat equity into my farm. At the moment my farm is fragile. If land values continue to climb and if commodity prices begin to slip, things will get real hard for me. And it will not matter how many jobs I am working to get my farm a start.

That is why it is important to ***include the provisions from the Beginning Farmer and Rancher Opportunity Act into the 2012 Farm Bill.*** I congratulate Representative Walz and Chairman Fortenberry for introducing this important legislation, and for so many other Members of the Committee for cosponsoring it. As beginning farmers, our needs are great and the competition is stiff and heavily subsidized. The provisions in the bill are cross-cutting and address access to credit, land, conservation programs, training programs and more. Together, these provisions will provide many of the necessary tools to strengthen my farm and make it more viable during my early years.

The CHAIRMAN. Thank you Mr. Doerr.

This would probably be an appropriate time to recess for approximately 20 minutes as we have votes that are pending right now. We should be able to return shortly.

If you will be patient, we will return with our questions. Thank you.

[Recess.]

The CHAIRMAN. The Subcommittee will come to order.

Again, thank you for your opening statements. We will start the questions, and I will begin.

Several of you mentioned, I believe Mr. Gerhart and Mr. Williams, specifically you mentioned in your testimony the importance of the crop insurance program. Do you require crop insurance from your farm loan applicants?

Mr. GERHART. Mr. Chairman, we don't require, but we strongly advise it. And for the most part, most of our customers utilize the Federal Crop Insurance Program. Of course it has been around for a good number of years. It has had a couple different routes that it has gone, but over the years, it has been a good program that has evolved as we go. If you are looking at FSA guarantees, in some cases, they are going to require that. But very, very few farmers are out there without a safety net, so it has been a good program. It allows them not only to make sure they are properly covering their crops, but it allows them to secure that financing, and it also gives them a good risk management tool to be in the market if they want to price their grain ahead of time.

Mr. WILLIAMS. Chairman Fortenberry, farming and agriculture has changed substantially over the years.

And when you look back at the 1980s with the farm crisis and many farmers going broke, the advent of many risk management tools have been implemented to protect the farmers from that happening again, not the least of which is the Federal Crop Insurance Program. We do not require that at our bank, but we rarely find an ag producer that doesn't use the program.

The CHAIRMAN. It has almost become a *de facto* aspect of entering into the Farm Credit System.

Mr. WILLIAMS. I don't believe there is a *de facto,* no, I don't.

The CHAIRMAN. Mr. Frazee, what about your requirements in that regard?

Mr. FRAZEE. We don't require it in all cases.

We look at each customer on an individual basis, so we look at the risk profile and either recommend it or, in some cases, may require it. But we, too, find it to be an extremely important and essential tool in a farmer's ability to manage their risk.

The CHAIRMAN. If there were recommendations that you would give, as all of you have pointed to the need for a robust Federal Crop Insurance Program, if there were recommendations for shifts in that program, what would they be from your perspective?

Mr. WILLIAMS. Well, the program has worked extremely well where it is at this point. I think the ideas of placing limits refuses to recognize that agriculture again has changed and has expanded. And rather than simply having limits that put people in boxes, we have smaller farmers, young beginning farmers, and we have large farming operations, all of which need to take advantage of risk mitigation opportunities. Crop insurance is one of those.

The CHAIRMAN. You mentioned young and beginning farmers. Do you sense the industry is becoming more aggressive toward seeking new customers who are the next generation of farming who may not have capital assets that are going to be inherited. In other words they are outside the traditional farm family network, but nonetheless have sound business ideas, perhaps entrepreneurial spirit, some level of capital? Has the—is the banking industry adjusting to what is potentially a new set of customers coming along that is a little bit out of the framework of what we have been dealing with for the last 40 years?

Mr. WILLIAMS. I think that is happening. And I look at our community and the change in average age of farmers that we have today *versus* the average age of farmers in our particular bank 10 to 15 years ago. That average age has continued to come down. Now, there are areas of the country and bankers that I talked to where it is the reverse of that. But what we have seen happen is many younger people, highly educated people, coming back, wanting to be on the farm. As long as there is that opportunity for them to do that, and that is what the banking industry's obligation is, and that is what we are trying to do.

The CHAIRMAN. So you do see that as a market trend?

Mr. WILLIAMS. Yes, sir.

The CHAIRMAN. As a part of your business forecast, if you will?

Mr. WILLIAMS. Yes.

Mr. GERHART. Congressman, I would echo what Matt has said. I was thinking on the plane ride in last night that I would imagine that our customer base of farm customers has probably in the last I would say 5 to 10 years, we probably are financing about 20 percent of our total loan portfolio with new or beginning farmers that are getting up and going. Many of those have utilized the Farm

Services Agency, so they have grown up—getting back to the Federal Crop Insurance Program, they have grown up utilizing that tool.

But yes, we are seeing more young farmers wanting to come into it these last couple of years. The farm economy being better off has certainly been helpful. I have also in the last 10 years sat across the desk from fathers who said my son or my daughter is never coming back because profits just aren't there. Maybe we are going to see some good things happen because of where the farm prices are, and that will benefit the future.

The CHAIRMAN. That is helpful news. Anecdotally, you don't hear a lot of those stories: Don't go into this line of work.

Mr. Frazee, if you will hold your comment, I am going to turn to the Ranking Member now for her questions and we will return to the issue of young farmers and ranchers, particularly with you, Mr. Doerr, and get your perspective as well as Mr. Walton, shortly.

Ms. FUDGE. Thank you very much, Mr. Chairman.

Mr. Walton, again, thank you for being here. Your testimony expresses a real and valid frustration with USDA, especially as it relates to urban farmers. And I share your frustration. And it is clear to me that USDA does not consider nontraditional farmers when it develops its credit programs.

My question to you, sir, is if you could develop a program that would meet the needs of your small operation which would account for job training, or makes use of undeveloped or abandoned urban space, what would that program look like to you?

Mr. WALTON. Well, a couple of things that I have mentioned in my testimony, that for small plot farmers, the real benefit would be developing cooperatives so that we can have the scale to service larger clients and employ more people. So if I was able to become part of a group of ten other farmers and get a loan as that entity, which again is outside the scope of the family farm, that would be viable and very important.

Ms. FUDGE. Thank you.

And I would like to ask the lenders, how would you respond to the needs of someone like Mr. Walton?

Mr. WILLIAMS. I think what Mike is bringing to the table is a legitimate question that we need to look at. And we have—and he and I were talking about this during the break. We have a situation where we are here today, we are looking at a situation where we have small beginning urban farmers, and then you have the traditional farming that Jeff, Bob, and I finance that are the large farmers that are really working to try to deliver a safe and secure supply of food to the American people, which is what they clearly deserve and demand.

We have diverse views on that of how to do that.

Congresswoman Fudge, the problem with the issue, under the legal system and the compliance issues that we have now, if Michael and a group would come in with a request like that, it would be very difficult for us to fit them in the box that we are required to be in right now to qualify them with the capital, the income history and all of those kind of documents.

Ms. FUDGE. What do we need to do to expand the box?

Mr. WILLIAMS. I think to expand the box, you have to look extremely hard at the FSA program and fit something that can work with that that we can agree on.

And we also, along with FSA, you have to further educate the traditional lenders and bring them along the way with that so that they are willing to open their doors to that also.

Mr. GERHART. I think the other issue that you have is, and I am not familiar with the lenders in his area, whether commercial, Farm Credit, *et cetera*, but you don't have to get too far out of the Midwest that bankers will look at me, and I am sure they look at Matt and say, how do you finance agriculture? What in the world is that all about? So maybe there are some opportunities for a pilot program of some sort in order to give something a try. And I realize it is all budget driven, so you want to be careful how you allocate our resources as taxpayers and be in a position to try something out.

It probably wouldn't take Matt and I very long to go in and take a look at what he is trying to do, what others are trying to do and feel comfortable or not. But if you are a city bank or a suburban bank and you are not dealing with agriculture, that is foreign to you. Just like residential, or not residential, but commercial real estate in Florida or something like that might be for me. It is not what I do every day. And so maybe the trick is to get some expertise in the farm lending area to folks like Mr. Walton.

Ms. FUDGE. And I am sure that would be most helpful.

But I also think that some of the requirements, the eligibility requirements for any of these loans for people like Mr. Doerr or Mr. Walton are going to be a barrier somewhere down the line, even if they are dealing with institutions who have some real knowledge and history with loaning to farmers.

Do you have a comment, Mr. Frazee?

Mr. FRAZEE. Yes I do. I think the situation Mr. Walton described really describes well what we are seeing in the City of Baltimore in the program that we are working to create there.

I think, as the other gentlemen have indicated, there is a need for credit guarantees. As we have explored the program and the opportunities there, we see certainly a need for capital. We see a need for training, expertise in terms of just a technical side of production. And it is one that I think does take a partnership, both public and private, and that is one that we are working on.

The CHAIRMAN. Thank you.

And we will now turn to the gentleman from Arkansas, Mr. Crawford, for any questions.

Mr. CRAWFORD. Thank you, Mr. Chairman. In general, I just want to address this to the ag lenders. My district in Arkansas is in the Mid-South, and we grow a lot of rice. And as you can imagine, rice is very irrigation intensive. And the primary safety net program that farmers in the Mid-South particularly engaged in rice production that has benefitted our producers is the Direct and Counter-Cyclical Program. And that of course, protects against low-yield scenarios. And the biggest threat that they face is low price swings and obviously input costs. And that is probably consistent across the country, but there are some things that are unique to the Mid-South and particularly rice production.

But let me ask you this. Understanding that scenario as ag lenders, how important do you think the direct and countercyclical payment would be in that scenario as an ag lender in evaluating risk before you are making a production loan?

Mr. GERHART. Congressman, I think it has historically been very important. I won't pretend to know anything about rice farming, financing rice. I eat it, and that is about my experience.

Mr. CRAWFORD. I am glad you eat it.

Mr. GERHART. But we have utilized those programs in years past, and there were times when they were very important. Not always have they been needed. Right now, not so much. But those prices continue to drop. It is certainly something that you need to have some careful consideration before you change that too much, would be my thoughts.

Mr. WILLIAMS. I totally agree with that, Congressman. I think those payments are critical. I think right now, very honestly, is a difficult time to be looking at the reauthorization of the farm bill because we have been through this period of prosperity with agriculture, and everybody is looking at some way to save the government some money.

The bottom line is that agriculture is a volatile and cyclical business, and the countercyclical nature of that is really something that needs to continue to be built into the program, and we would totally support that.

Mr. FRAZEE. Congressman, we don't grow rice in Maryland either, but I would say that any of the support programs you provide are something that all of us look at in terms of our underwriting and assessment of the risk. So any changes that are made would affect that balance in terms of how we would approach the risk assessment of credit.

Mr. CRAWFORD. Well, as the Committee just heard from you all, eliminating these critical safety net programs doesn't just affect the farmer's bottom line; obviously, it is a component of how you make your decision on evaluating risk on a farm loan. But I am hopeful that this Committee will keep that in mind as we move through the farm bill process, and I thank you for your input on that.

In the time that I have left, let me ask Mr. Gerhart, you discussed in detail several interesting points about farmland values and the potential bubble in farmland real estate, and we are experiencing that or seeing that in our neck of the woods as well. Would you give us some brief examples as to what you think might take place if the bottom falls out, and land values begin to fall? Would you see some similarities in the housing crisis of 2008 and 2009 and why?

Mr. GERHART. You potentially could see some similarities. The question out here is, do we have a bubble? I think, yes, there is a bubble. How much of a bubble? Time will tell. My concern as an ag lender is that if the air comes out of a bubble too fast and we have land prices fall like they did in the 1980s, and part of the 1980s, the ag crisis that we all went through, that is where I cut my teeth. And these land values, they went from X amount to ½ of that. The farmers still had to make the cash flow. That is the other component, is that right now we are having historically good incomes on the farm. But as I said, it wasn't too many years ago, farmers were talking about they are not going to have their kids come back because they knew that they couldn't bring them into their existing operation.

I think that there is a lot of consideration for what might happen, how fast it might happen. Hopefully we are not skating on thin ice, but as bankers, we are very concerned about what these land prices are doing. A lot of our customers have bought some of this. They are doing it with a degree of financing. They are doing it with a degree of their own cash.

But at the same time, I just hope we are not going to have a repeat from several years ago. But that would be my biggest concern.

The other part of that is what will the regulatory agencies, what will our regulators, what will they do as far as how harsh they will come down on us? If they are going to make us mark down land prices like we have seen in the commercial real estate or the mortgage family homes, that will be a killer if they come down on us hard.

Now, a piece of land is going to be in a position where it will constantly have the potential to raise a profit. If you don't have somebody renting out that strip mall, then you have no income coming in.

But ag land is different, and I would encourage the Committee to keep an eye on that, too, because nobody really knows what is going to happen. But, hopefully if the air is going to come out, I hope too much doesn't come out. Certainly that is something we are watching very, very close.

Mr. CRAWFORD. Thank you, gentlemen.

Mr. WILLIAMS. Congressman, if I could add something to that with your permission, Mr. Chairman.

The CHAIRMAN. Mr. Williams, why don't we come back to you? And I will turn to the gentleman from Iowa now, and perhaps we will get to your comments momentarily.

I recognize the gentleman from Iowa.

Mr. KING. Thank you, Mr. Chairman.

I thank the witnesses. First, I would like to direct two or three questions to our financial people, Mr. Frazee, Mr. Gerhart and Mr. Williams, and in particular, I hope I can come back to our producers with a couple of questions.

But have you given thought to and have an opinion on, Mr. Frazee, what direct payments might do to distort market prices?

Mr. FRAZEE. That is something we have given some consideration to. There has to be some element of influence on those. It is not something, though, that we have gotten to the point of being able to quantify.

Mr. KING. So we could I guess draw a conclusion that there is a supply that is altered in some way, but it is not quantified, and then that supply affects, of course, the market prices, that some crops might not be planted if we didn't have direct payments and others might be?

Mr. FRAZEE. It potentially could.

Mr. KING. Thank you.

Mr. Gerhart, do you have any way to illuminate that a little more for us?

Mr. GERHART. Well, if I could illuminate it with the crop insurance program. I was in Washington——

Mr. KING. Actually, Mr. Gerhart, I do want to come back with a crop insurance question, but could we confine it to direct payments first and then come back to the crop insurance piece?

Mr. GERHART. Sure. The direct payments in that case would certainly be important for the farmers out there now, tie it to crop insurance when you want to.

Mr. KING. Mr. Williams?

Mr. WILLIAMS. I don't know that I have anything in particular to add there. I would certainly not hold myself out as being an expert. I personally think the countercyclical payments are more important than direct payments as far as maintaining the stability of agriculture.

Mr. KING. I will go back then to Mr. Frazee and work our way down the line again.

Crop insurance, how does crop insurance, the programs that we have had, how does it affect our commodity prices?

Mr. FRAZEE. I can't speak to how they affect commodity prices. I can say that they have certainly been a substantial benefit from the standpoint of a farmer's risk management program.

Mr. KING. Mr. Gerhart, all you want to say about insurance, I would like to hear now.

Mr. GERHART. What I was going to say is we were in Washington. I had a chance to visit with some bankers from Texas who were up in the Lubbock area, Amarillo area, the Panhandle, where it has been very dry the last couple of years. I asked them how in the world are your farmers making it? And the answer was Federal Crop Insurance Program. And I am sure that goes along with whatever they are raising, corn or wheat or cotton or whatever; and maybe the countercyclical and direct payments also come into play. But if we didn't have these programs we have would see probably quite a bit of devastation in an area that is getting along pretty well. So crop insurance is certainly important for anything we do.

And, as I said earlier, our customers, our farmers, young and old, have gotten very used to that risk tool. And they are using it effectively. I tell you it is like pulling teeth sometimes to get these guys to even forward contracts on corn or beans, but once they step in the water a little bit they will add more and do that. But their dad didn't do it. Their grandfather didn't do it. So sometimes they have been hesitant. But, for the most part, the Crop Insurance Program has helped them manage their risk much better.

Mr. KING. Do you have operating loans of producers that do not have crop insurance?

Mr. GERHART. If they do, they are not probably borrowing too much. We are enough down the road where we are dealing with second, third, fourth, and fifth generation farmers. So the program has been in place long enough that most all of them are using it or we certainly strongly encourage them to do.

We have three insurance agencies in our community. We also have one, too. They don't have to buy it from us. I would like them to, but they don't have to buy it from us.

Mr. KING. Thank you.

Mr. Williams.

Mr. WILLIAMS. Congressman, the Federal Crop Insurance Program does a couple of really important things. The number one thing, it provides that safety net if there is the disaster that Jeff mentioned, the drought, the flood like you had close to you last year in Arkansas, those kinds of things.

But the other thing it does, it opens up the opportunities for ag producers to market. And your question is about what does crop insurance do to the market.

Well, in our area, the largest single purchaser of corn is Frito Lay for all those salty snacks all of us love to eat, the Frito chips, the Dorito chips, the Tostito chips. Frito Lay very rarely buys the product from the farmer during the fall period of time when the farmer is harvesting their crop. So the farmer has to have the ability to contract in advance to guarantee to Frito Lay that we are going to fulfill our contract and sell you this many thousand bushels of corn, and it is not at harvest time.

Federal Crop Insurance is the catch-all in there that allows them to be able to have the risk mitigation to do that, not knowing when they are signing that contract with Frito Lay if they are going to have that hailstorm or that windstorm or that drought. So it is a necessary program.

Now whether it actually affects the market price of the corn, I would have to leave that to some economist beyond me.

Mr. KING. I ask unanimous consent for an 30 seconds to wrap it up.

The CHAIRMAN. The gentleman is recognized.

Mr. KING. I thank the Chairman.

There is more I wanted to say and probe into, but I just wanted to lay these two subject matters out on the table, that we have commodities prices that are in supply and demand and the supply is affected by the policies we have, be they direct payments, be they countercyclical, be they crop insurance. And the balance of these things make a difference not just in our market prices but also in the acres that get planted and the crops that get planted on those acres.

I don't know that we spend a lot of time thinking about what crops might be planted if there was a different policy in place for crop insurance or how we really need to think about what crops might be planted if, and what we all expect, there will be no direct payments.

I think that is a pretty big equation that we should be examining as we go forward, and I appreciate your testimony.

And, Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman from Iowa.

I will begin a second round of questions.

Let me turn to our urban farmer and our young farmer, Mr. Doerr.

Mr. Walton, you had talked about in your testimony a fascinating concept of using abandoned land to turn into an urban farmstead. Clearly, there was a significant capital investment, but then you did not find a market for the product, as I understood your testimony to indicate. Could you explain a little bit more the dynamics of that? Why with the involvement undertaken, I assume you foresaw a market need. But your intensity of production outcome apparently was quite good, and you couldn't sell everything you had and didn't turn a fair enough profit, and now it is plowed back under. Is my understanding correct?

Mr. WALTON. Correct. Two things.

It is different today than it was then, which was about 2 years ago, primarily because we have had some restaurant salespeople sort of retire and then start working for urban agriculture. So just this year, literally today, my wife was talking to me on the phone this morning that we have a professional salesperson who is now representing us and some others to restaurants. So that is new for us.

The CHAIRMAN. So it was an internal difficulty with your own business plan and not necessarily the lack of a potential for the broader use of your product, is that what you are saying?

Mr. WALTON. Correct. And we sort of went into the market early. When we started, there were only two other commercial farms in Cleveland in 2009, and we did it to be in the forefront.

The CHAIRMAN. If I could interrupt you right quick, one of the reasons that we have agricultural policy in the first place is that the individual farmer cannot control his own outcomes. In other words, because of the nature of commodities, if he works hard or she works hard and produces an abundant supply of crops, because of the nature of the interchangeability of the commodity, the price could collapse, and it is not the individual farmers fault.

It appears, though, that this is a bit of good news, even though you encountered difficulty, in that you didn't flood the market, if you will, due to your hard work with an overabundance of supply, that the market is potentially there if we all learn how to exercise these options a bit better. Is that a fair summary?

Mr. WALTON. Perfectly stated.

The CHAIRMAN. I don't hear that much around here. Thank you.

Let me turn quickly to Mr. Doerr. I would like to understand a little bit better as well what your current situation is and the pathway in which you overcame those hurdles that you talked about in your opening statement.

Mr. DOERR. I come from a farming background, which is already ahead of urban farming. I already have a background, so that helped me out a lot or just gave me a little bit of an edge.

The folks sold their operation. I had to basically start from scratch when it came from the land and equipment standpoint, but just working with some neighbors and relatives in the area, I was able to get my foothold in. I rented some acres from a neighbor of mine and borrowed some equipment that my dad had that my grandpa used, and just slowly but surely, just through some marketing and whatnot, I was able to get a foothold and build up some assets.

The CHAIRMAN. So you scrapped it together.

Mr. DOERR. That would be a perfect summary.

The CHAIRMAN. You didn't have any participation in any of the beginning farmer rancher program elements?

Mr. DOERR. I did work a little it bit with the FSA on working with an operating loan to cover my day-to-day expenses.

The CHAIRMAN. You were able to obtain that?

Mr. DOERR. I went through the application process. I didn't complete it for the sole reason that I would have been approved for it, but the problem I ran into is funding. The funding was very uncertain through the FSA. And just because funds were being allocated, and I was working on some land rent agreements, I didn't want to go through the whole process and work with a landlord that is already taking on risk renting to me. I didn't want to work with them and come up with a fair land rent and then have to come back to him in March and say, hey, funding wasn't available. Can you wait another month for my operating loan to be funded?

The CHAIRMAN. So how long—what has the time horizon been here? How long have you been piecing the operation together and building it up and attempting to stabilize it? I recall you said you are still in a fragile period.

Mr. DOERR. Yes, a fragile period.

I have been working full time off the farm for a number of years and working weekends and nights just as much time as I had to get started. I have been doing that probably for the last 4 years, and for the last 2 years I have been just getting a little more serious. And then this last year I quit working my 40 hours a week away in the city and moved closer to the farm. And now I work for another farmer, and so together and through my own work, we are making it work.

The CHAIRMAN. Both of you have provided great American stories of entrepreneurial spirit here. So we thank you for plowing through the difficulties. Maybe we will have a little bit more time later to discuss this.

I will turn to the Ranking Member now for her questions.

Ms. FUDGE. Thank you, Mr. Chairman.

Mr. Frazee, just a question. Do you charge different interest rates for small and minority farmers than you do for the big guys?

Mr. FRAZEE. Yes, we do, Ms. Fudge. We actually have a program, our StartRight Program that I referred to in my testimony, which one of the components of that is to offer interest rates concessions to these young, beginning, small, minority farmers.

Ms. FUDGE. So what would those rates be, just in general? Give me a ballpark.

Mr. FRAZEE. It would typically be a half a percent or less than what we would charge our regular customers.

Ms. FUDGE. Thank you.

To anyone on the panel, if you could change one thing about the Farm Service Agency Guaranteed Loan Program or its operation, what would that be?

Mr. GERHART. There are probably many things. But to allude to what Justin was talking about, he was interested and applied for a guarantee loan, but the funds were used up, is that right, Justin? Or there weren't enough funds to go around.

We run into that year in and year out. We probably don't speak up about that, but the amount of dollars that could be put toward the programs that are already out there would benefit—would benefit us quite a bit and allow for folks like Justin to get in and many customers like ours. But, many times, they can't go forward because the funding isn't guaranteed.

Ms. FUDGE. So would you venture to guess that the funds are used so quickly because they continue to go to the same people year after year?

Mr. GERHART. Now that I don't know, but I would think—we have seen farmland prices skyrocket in the last couple years, so the farm ownership loan of a $1.2 million isn't really as practical as it used to be. I wouldn't know. I think that is a question for FSA.

Ms. FUDGE. I think we need to look into that. Because I would almost venture a guess that a significant portion of those loans go to the same farms year after year.

Mr. GERHART. But you want them also to go out to the new farmers out there, the new folks like Justin that are coming out or the urban farmers, if they qualify, most certainly. So it is certainly something to consider.

Mr. WILLIAMS. Congresswoman, that leads right into the issue of term limits on the FSA loans, and both Justin and Mike could be good examples of where the term limits are going to cause them problems at some point in time.

Smaller ag businesses take a long time to build, to build the capital on the balance sheet, to build the income statement that is going to allow them to qualify for normal bank lending at a point in time. And it may take longer than the term limit of 15 years to get that done when you are young and starting out very slowly like this.

So we have kind of counter values here. Yes, we want to continue finding a way to pass the money around to some different people. But if we cut them off too soon, if we take Mike's operation and get him halfway through this process and the term limits terminate the ability for FSA to continue, we haven't really solved the problem.

Mr. FUDGE. I agree, Mr. Williams. But I can very honestly tell you, I would rather get them in the program—right now, they can't get in the program—than worry about somebody who has been in there 15 years. I think you may be right for smaller businesses, but I am more concerned about them getting in the program and getting started and getting them in than somebody that has been there for 15 years.

Mr. FRAZEE. Congresswoman, if I could offer a suggestion as well.

One of the areas that we see is the need for eligibility to follow the evolving legal structures that farmers are entering into. LLCs, for example, are one way they organize but wouldn't be eligible. So if we could see the FSA requirements adjust to the realities of what is happening in the marketplace it would be helpful.

Mr. FUDGE. Thank you very much.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

Again, I thank the witnesses.

I wanted to go one more place with my questions and on down the line to our producers, too, and starting again with Mr. Frazee. What would you have to say to this Committee about conservation compliance? Should that be something tied into these programs we are talking about?

Mr. FRAZEE. We think conservation compliance is important, but we do not believe that it should be tied to crop insurance requirements. That is such an important risk mitigation tool that we think that it shouldn't be—it shouldn't have other requirements placed on it.

Mr. KING. And not a recommendation on how to do that, just how not to do that?

Mr. FRAZEE. That is right.

Mr. KING. Thank you.

Mr. Gerhart?

Mr. GERHART. I would agree.

Mr. KING. Mr. Williams?

Mr. WILLIAMS. Well, conservation is second to none in agriculture. The most recent Fortune 500 company that we have been able to recruit to our community of 3,500 people in Nebraska is Monsanto. They are working tirelessly in agriculture right now to be able to have us grow double the acreage—the production per acre on the soil that we have and use less inputs, less water, less chemicals. So conservation is absolutely necessary, but tying it this way I would agree that that is something we would like to see left out.

Mr. KING. Do you have a recommendation on how to do that? It is important. Do you believe it needs to be tied into this upcoming farm bill regardless of how we might do that?

Mr. WILLIAMS. My experience to date is that I don't believe it would necessarily need to be tied into the farm bill. Because I tell you, the producers that we deal with, conservation is there, and they are using the techniques to take care of those issues.

Mr. KING. Thank you.

Mr. Walton, did you have a comment on that?

Mr. WALTON. The land in urban areas is so un-farm-like that conservation is almost the beginning. In one of the areas that I farm—I have two plots in Cleveland, and in one it is actually a neighborhood that I grew up in. My grandparents live there. They call it their forgotten triangle because there was a fire in the 1970s that burned down most of the houses.

The community ended up being three houses on 20 acres. So they knocked down the three that were there and designated that area as an urban agriculture site and literally cleaned off 18 inches of the land, got a $750,000 Federal grant to turn it into an urban agriculture incubator, and we are still consistently working on turning that plot into farmable land. So for us——

Mr. KING. It is not so relevant.

Mr. WALTON. It is not so relevant. We have to conserve, we have to input, we have to modify the soil just to make it work.

Mr. KING. Thank you.

Mr. Doerr.

Mr. DOERR. I certainly believe conservation is very important in agriculture. It is for me, because I need to take care of the land so it can take care of me.

I also believe crop insurance is very important. For me having limited assets and capital, having that safety net is very crucial to my operation.

But as far as tying the two together, I am not an expert in how that would affect farm policy or how it would affect the two separately, but they are both very important to my operation.

Mr. KING. I just want to say to you that, as a beginning farmer and always in a precarious situation, that sometimes goes on for generations, that precarious situation, you well know. How do you get in entry level when we are looking at land that in my neighborhood might be $10,000 to $20,000 an acre.

Historically, the best way to get started farming was always marry the farmer's daughter. So that is access to capital that can't be compared with the things that will be offered by the three gentlemen on the left side of the panel.

However, I would like to circle back there in the little bit of time that we have, and I wanted to ask Mr. Williams and Mr. Gerhart and then Mr. Frazee, when you look at the Farm Credit System that we have, and I know you are competing against each other. I look at the some of the states where there is a large market share by Farm Credit, Michigan would be one of those comes to mind with around a 65 or six percent market share. What is the market share in your state, in Nebraska, Mr. Williams and Mr. Gerhart, and what do you think strikes an appropriate balance? I wouldn't be for legislating anything like that, but what is a healthy balance that might be achieved by reasonable competition?

Mr. WILLIAMS. The largest competitor that we have for ag loans in the banking industry in Nebraska is Farm Credit, and their untaxed situation with that causes us great angst, and everybody knows that.

Farm Credit was put together many years ago to help create farm financing in areas where there were not financial institutions to do that. Today, at least in my state, we have financial institutions everywhere that are trying to do that thing of competing for those farm loans.

I think it is really important that agriculture have enough financing available, and if it takes the availability of a Federal program to do that, then I think that is fine. But I would tell you today, with the liquidity in the banking system, we don't have the same areas of interest that we had at one point in time. I can't tell you the exact market share of what Farm Credit Services of America, the Omaha operation, has in Nebraska, but it is significant. They are our number one competitor.

Mr. KING. Thank you.

I see we have run out of time. I would just ask both gentlemen to answer quickly, if you could, out of deference to the Chairman's anxiety.

Mr. GERHART. I would agree with Matt on that, and we have some funding differences, too. Their funds are on the national market. There have been different studies that say how much of a difference that is. We still do it the old-fashioned way with deposits, checking accounts, savings accounts, *et cetera*. So there is a discrepancy out there.

They are very good competitors, and for the most part we are able to compete heads-up with them. But the tax advantage certainly has historically been an issue for us to deal with.

Mr. KING. Mr. Frazee will notice that he has the last word.

Mr. FRAZEE. Certainly.

Well, it has been well documented that we all have advantages. There are advantages that the banking system has, that the Farm Credit System has. There are advantages that the Farm Credit System has that the banking system doesn't have. At the end of the day, we all seem to be successful. Loans are growing. We are all profitable. So I don't know that either of us can say that the advantages we have disadvantage one over the other.

I think what is most important is that farmers have an access to a reliable source of steady credit, they have competitive credit, and we think it is important that there be a source of that credit that is owned by and controlled by the farmers, and that is why the Farm Credit System is here.

Mr. KING. I thank all you gentlemen.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman from Iowa.

Before we adjourn, I will turn to the Ranking Member for any closing remarks she has.

Ms. FUDGE. Thank you so much, Mr. Chairman.

And I want just say to our panelists thank you for testifying today. You provided important background information that will hopefully be used by this Committee as we develop the credit portion of the farm bill.

Again, I appreciate your testimony, and I thank you all.

I yield back, Mr. Chairman.

The CHAIRMAN. I thank the Ranking Member, and let me add my thanks as well for your willingness to testify today. I think you have given us valuable insights, and we appreciate all of your efforts as an important part of the broad agricultural family to ensure that we are providing a safe and abundant food supply for our fellow citizens.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witness to any question posed by a Member.

The hearing of the Subcommittee on Department Operations, Oversight, and Credit is adjourned.

[Whereupon, at 11:40 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY MICHAEL A. GERBER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FARMER MAC)

Chairman Fortenberry, Ranking Member Fudge, and Members of the Subcommittee, thank you for the opportunity to provide the Subcommittee with a statement for the record on behalf of the Federal Agricultural Mortgage Corporation, also known as Farmer Mac, which is a stockholder-owned, federally-chartered instrumentality of the United States and part of the Farm Credit System.

Farmer Mac provides a secondary market for agricultural real estate and rural utilities loans and certain loans guaranteed by the U.S. Department of Agriculture (USDA). This secondary market increases the availability of long-term credit at stable interest rates to America's rural communities, including farmers, ranchers, rural residents, and rural utilities. It provides these borrowers with the benefits of capital markets pricing and product innovation.

Congress created Farmer Mac in the aftermath of the agricultural credit crisis of the 1980s, a time when land values fell as interest rates rose sharply, credit tightened, and farm foreclosures became painfully common. Today, Farmer Mac interacts with all categories of rural lenders including banks, Farm Credit System institutions, insurance companies, and cooperative rural utilities lenders. Every day, our secondary market functions to help ensure that liquidity and lending capacity is available for lenders to support rural America. Farmer Mac serves as an essential bridge between investment capital and main street rural America.

Rural communities need access to all the tools available, including the secondary market tools offered by Farmer Mac, to compete effectively and attract the types of economic activity that allow rural businesses to grow and prosper. Since 1996, Farmer Mac has purchased or guaranteed over $31 billion in rural loans, providing significant liquidity and capital to rural lenders across the country. This function ultimately benefits all rural borrowers and fosters economic activity in all sectors of rural America. Farmer Mac's effectiveness has only been possible because Congress has been willing to update Farmer Mac's statutory charter on several occasions (most recently in the 2008 Farm Bill) to meet the ever-changing needs of rural economies.

For instance, the 2008 Farm Bill added to Farmer Mac's charter the ability to purchase and securitize loans for rural utilities. Since that time, Farmer Mac has infused over $5 billion into the rural utility marketplace. This access to capital at competitive rates has enabled rural electric cooperatives across the nation to enhance their service in providing affordable and reliable electricity to businesses and rural residents.

The needs of agriculture and rural America have changed dramatically over the last 5 to 10 years. We would ask Congress to consider updating Farmer Mac's charter to allow us to better serve the diverse needs of rural America. Rural communities could benefit significantly, for instance, if Farmer Mac were able to provide its secondary market activities to additional forms of rural lending such as farm operating loans, intermediate term loans, as well as additional types of USDA-guaranteed loans. Rural communities would also benefit from Congress addressing certain technical points that have hindered access to Farmer Mac's programs in the past, such as removing the "1,000 acre rule" that limits the dollar amount of loans secured by more than 1,000 acres of agricultural real estate and including trusts as eligible borrowers. We have a complete proposal for your review and would welcome the opportunity to discuss it in greater detail at your convenience.

The engine of rural America is found in the millions of hard-working farmers, ranchers, and small business owners who call it home. For them to compete in the global marketplace, they need access to capital and credit on an equal footing with their urban neighbors. Particularly today, as budget pressure inevitably will reduce the availability of Federal rural development support from Washington, mechanisms like Farmer Mac must be relied on to fill the gap.

Rural Americans account for nearly ⅓ of our nation's population and just as the economies in urban areas change and develop over time, so do those in rural areas. Federal policies must keep pace with the changing needs in rural America; that is one of the reasons we revisit our farm bills every 5 years or so. Now is a critical time for Congress, with the Committee's leadership, to ensure that the changing needs of rural America are met. Farmer Mac is well positioned to take on these new authorities and stands ready to assist rural lenders in meeting the needs of their customers into the future.

Thank you for the opportunity to submit this statement for the record.

Sincerely,

MICHAEL A. GERBER.

SUBMITTED STATEMENT BY DAVID W. NIKLAS, PRESIDENT, CLACKAMAS GREENHOUSES INC.; ON BEHALF OF SOCIETY OF AMERICAN FLORISTS

Chairman Fortenberry, Ranking Member Fudge, and Members of the Subcommittee, thank you for the opportunity to submit testimony for the hearing record on this important subject as Congress considers reauthorization of our nation's agricultural programs.

The financial crisis that our nation experienced in 2008 has had a profound effect on many industries and small businesses across the country. The resulting credit crunch acutely impacted agricultural production here in Oregon, claiming family-owned and nearly century old businesses like ours in its wake. I share our business's story with the Subcommittee in the hopes that all reasonable opportunities to expand access to affordable loans and lines of credit are examined as Congress addresses ongoing challenges with rural development and small farm production.

Background

Clackamas Greenhouses began as a partnership in July 1911. My great grandfather, Fritz, and my grandfather, Hans, were two of the early partners. In 1922, Clackamas incorporated with both of them as founding shareholders. In 1955, my father purchased the remaining 50% share from the retiring manager of the operation, making Clackamas 100% family-owned and operated. I became President in 1986, growing the company to a peak of $4 million in gross sales with a full-time workforce of between 38 and 40 employees in 1995.

Clackamas Greenhouses Inc. was a regional grower of flowers and plants supplying retail flower shops, garden centers, regional grocery chains and other mass merchants. Our primary market was in the segment of the industry known as "indoor floral." We grew and sold holiday plants like Easter lilies and poinsettias, as well as everyday plants like pot chrysanthemums, African violets and cyclamen. These crops constituted approximately 75% of our sales. The remaining share was in garden plants like geraniums, petunias and impatiens.

In the mid to late 1990's, major changes began to develop in the regional grocery business. Driven by the emergence of Wal-Mart as a major retailer, and fueled by low interest rates, a wave of consolidation crested over the grocery industry. In 1998, the Kroger Company acquired our regional Fred Meyer chain, our largest single customer. We had done business with them for almost 50 years. Sales to the Fred Meyer floral, garden center and grocery departments constituted 42 percent of our annual sales.

At first, little changed while Kroger was assimilating Fred Meyers with other regional chains that it had acquired en route to becoming a more prominent national company. Clackamas dedicated itself to being the very best regional supplier of flowers for Kroger. For a while, we were quite successful. Soon we were the only local suppliers of flowers and plants for Kroger's floral departments. Then in late 2003, Kroger dismissed three of its four buyers for the Fred Meyer Floral Department. Our regional contacts were replaced by individuals subordinate to the national Kroger buyers out of Cincinnati, OH and Vero Beach, FL.

For the next 2 years our business model shifted. We became suppliers of products from other operations. In time, the demands on turnaround came on increasingly short notice and costs began to skyrocket. In 2005, Kroger approached Clackamas to compete with another operation to serve as purchaser/distributor for its operations in the Northwest.

To "win this business," Clackamas was asked to purchase flowers from California producers that Kroger had arranged. The winning bidder was to take possession of these products and deliver them to the Kroger/Fred Meyer stores in the region. I was told to do this at only a 10% markup from the deflated mass purchase price. My 25 years of experience in the industry told me that this was not a good proposition for the company. Our proposal suggested a newer distribution model that had been successfully implemented by other local nursery and floral industries.

In February 2006, Kroger notified Clackamas Greenhouses that we would be delisted as a supplier. Overnight, we lost more than 40% of our sales and had a huge loss for the year. Incidentally, the company that Kroger selected as its regional purchaser/distributor went out of business not too long thereafter.

A New Model

It did not take a scholar of macroeconomics to see the writing on the wall. Despite having done everything that had been asked of our company, there was little that a business of our size could do to combat the market forces of mass consolidation and acquisition. Experience told me that a deteriorating market segment coupled with projected revenue losses meant that Clackamas Greenhouses would need to undertake a new business model in order to survive.

In July 2005, 6 months prior to Kroger's decision, I prepared a report for the Board of Directors stating that I had lost all faith in our relationship with Fred Meyers. In that report, we outlined a plan to dramatically shift our production from indoor floral to garden plants over the next 12 to 24 months. This timing would allow Clackamas to take advantage of the booming housing construction market and put the company back on solid financial footing. We also felt it was time to expand on a recent trial business.

Since 2001, Clackamas had been running a trial program of vendor-managed inventory (VMI) for a local small drugstore chain. We had purchased 20 self-watering display and sales tables. We would set these tables up on sidewalks in front of the drug stores and stock them with garden plants. Clackamas received 80% of the retail cost, while providing maintenance for the plants and being liable for any loss due to plant death or theft. Fortunately, the use of the self-watering tables kept our shrink to a minimum and the trials had proven to be a great success.

The company with whom we had conducted the trials was a local chain of 14 drugstores. In 2005, the owner of the local chain sold seven stores to Walgreen's. Noting the program's potential, Walgreen's contacted Clackamas to inquire about expanding the VMI program to most of its stores in Oregon and Washington state. With more than 100 Walgreen's locations in both states, we were excited about the opportunity to forge a new partnership and continue to grow our business in a new market.

To expand our business and adapt our operation accordingly, it was time for Clackamas Greenhouses to sit with our current community bankers to discuss alternatives for financing this new venture.

Our Community Banks: It's Not Us, It's You

As FY 2005 closed, Clackamas Greenhouses had banking relationships with two different regional banks. We had a long-term capital loan with Silver Falls State Bank in Silverton, OR. This loan was backed by a first position on our land and buildings. We also had an operating loan with Columbia River Bank in The Dalles, OR. This loan had second position on the land and buildings and first position on our inventory and machinery. Clackamas had been with these banks for only a short time. Our prior lender exited the agricultural loan market 2 years prior.

In order to expand our VMI business to fulfill Walgreen's proposed partnership, we had to invest in more tables. Clackamas first approached Silver Falls State Bank, but our loan officer there immediately indicated that Silver Falls did not underwrite this type of operating loan. We then approached Columbia River Bank.

Although Clackamas had only banked with Columbia River for 3 years, we were already on our third loan officer in that span of time. The current loan officer did not have a background in agricultural lending. Nevertheless, we put the final touches on our business plan and our projections and set up the meeting. After our presentation, I was told they would get back to me. After 6 weeks with no word, I again contacted our loan officer who said they were still analyzing the proposal. The bank asked for more detailed information on the trial program and we happily obliged.

By October, as we were fast approaching the point at which we needed to book plant inventories to support our business projections, we still had not heard anything. When contacted again, the loan officer told us that our proposal would need to be reviewed by the bank's loan committee. It was suggested that I host the committee at our greenhouse and that I should conduct our presentation again. I agreed and the loan officer scheduled the visit . . . for December.

We began developing a contingency plan in the event that Clackamas was unable to successfully secure a loan. Sure enough, my presentation to the Columbia River loan committee in December did not go well. The director of agricultural lending said that our market had deserted us and advised us to cease operating. The shifting market was the basis of our proposal in the first place, so I countered by indicating that this loan would help our company expand into a new market that we had been actively developing. Our locally owned, 90 something year old business was not ready to give up. After years of developing a new market and months of waiting for the bank's response, we were informed that Columbia River Bank was not interested.

The delayed response from Columbia River had a detrimental effect. Clackamas immediately began to roll back production but was only partially successful because of the needed lead-time needed for production. Now, with a reduced sales plan, we knew that meeting obligations to our vendors would be quite difficult. FY 2006–2007 ended poorly. We made substantial cuts to our company's scope and workforce, but we could not cut fast enough or deep enough. Despite all of this we remained determined to make it through the storm.

"If at first you don't succeed . . ."

Clackamas Greenhouses started looking for a new lending partner. Given the losses of the previous 2 years and our now defunct relationship with Kroger, we knew that we would need help finding a financial backer. We reconfigured our new business plan to make it more bite-sized. We hired a local accountant to help transition our finances to an asset management based system. Upon our CPA's advice, we searched for a bank that worked closely with the Small Business Administration on guaranteed loan programs.

In September, we began a dialogue with the Portland, OR based Temecula Valley Bank that specialized in SBA lending. Our conversations with their lending officer revealed a very similar situation with a potato processor the year before. The loan officer assured us that they knew just how to structure the deal. Temecula asked us to meet with them in 3 weeks, as their small office was in the final stages of processing three other loans. We agreed to wait until October 2007 to begin the application process.

On October 7th at 4:30 p.m., Temecula Valley called to inform us that the bank was suspending all lending authority from its loan officers. I did not know it then, but I was witnessing the first tremors of the financial meltdown of 2008. We went back to our referrals list and spoke with two additional banks (to no avail) before finding a broker that agreed to work with us. The broker recommended that we update our cash flow forecasting model, so we contracted with a consultant to customize one for our company. It took 2 months. By January 2008, it became very difficult to meet with our local banks. Despite these challenges, we presented our plan to eight or nine banks between January and July, all to no avail.

Now desperate, we began approaching private lenders. In July 2008 we received an offer from a private source that indicated they would be willing to back us. After examining their offer sheet and plugging their terms, fees and interest into my cash flow model, it became clear that this offer was "predatory." We respectively declined their offer.

Farm Credit: A Last Resort?

When we originally met with Northwest Farm Credit Services in 2008, they indicated that they were focused on existing customers and that they would not consider new customers. In 2009, we hired a bankruptcy attorney with experience in Chapter 12 proceedings. On the lawyer's advice, we switched financial advisors to a local woman with extensive banking experience and a history in agriculture and problem loans. She informed us of a program that might help us obtain a Farm Services Loan for our troubled farm.

The fall and winter of 2009 was devoted to attempting to secure a Farm Services Loan. The paperwork for this program was extensive, eventually filling two 3 inch thick notebooks. Despite this effort, we were initially rejected for the loan. Upon review it was clear to our advisor that the notice of rejection was full of faulty analysis. We went through the reconsideration process, but learned that the reconsideration officer was also the lending officer that rendered the initial decision. He upheld his original decision.

We requested an official review of our application and I provided phone testimony to an administrative judge. The testimony was sent to Colorado for the final appeal. In the meantime, our need for working capital in February 2010 was critical. We continued to solicit local community banks as we waited for the judge's decision. When we contacted Clackamas County Bank about the possibility of meeting to present our business plan, the loan officer said that if he even spoke with an ornamental horticultural business, the FDIC would shut his bank down.

In May, the administrative judge informed us that the FSA office in Colorado had "misplaced" our case. The judge asked if we wanted to proceed further with our appeal. Since our season was over, we dropped our appeal.

One Last Ray of Light

In June 2010, Clackamas again tweaked our strategy and decided to broaden our approach. We found a private equity company that was willing to work with us if we got blended some state/Federal aid and got a commercial bank involved.

We met with the state of Oregon development agency that was overseeing recovery funds for local businesses. We learned that we qualified and that the agency would look favorably upon our effort, particularly if we had a diversified group of financiers. All Clackamas Greenhouses needed was to find a bank that would work with us.

Whatever luck we had seemed to be making an upward turn. In June 2010, we received a call from the national buyer from Safeway. They invited me to Pleasanton, CA. for a meeting. I flew down in early July and was informed that Safeway wanted to make my company their supplier in the Northwest. They were planning on running a "Buy Local" campaign similar to the "California Grown" test market they had been running in that state during the previous 2 years. They started sending me contracts with delivery dates in January 2011.

With contracts in hand, we doubled our efforts to find a bank that would work with us. We worked feverishly, meeting with eight bank representatives in an 8 week period. Not one would entertain us.

On Nov. 1, 2010 I announced that Clackamas Greenhouses was ceasing operations effective Dec. 31, 2010. Providentially, a local firm that produces reforestation tree seedling was in need of extra greenhouse space. Our facility is now leased for 5 years to that firm.

Can Congress Restore Credit?

My Representative and a current Member of the House Committee on Agriculture, Rep. Kurt Schrader, did everything he possibly have could to help me find access to affordable loans and lines of credit so that I could execute my plan and continue operating our family's business. His office and staff were instrumental in connecting us with the appropriate personnel at the development agency and other local officials in our continued quest. But there was only so much that his office could do to help.

I cannot help but think that the memory of our Clackamas Greenhouse Easter lilies were on Rep. Schrader's mind on March 28, 2012 when he introduced H.R. 4293, the Restore Main Street's Credit Act. This legislation would exempt loans and extensions of credit made by credit unions specifically targeted to brick-and-mortar businesses with 20 or fewer full-time employees from current limitations on member business lending.

This bill would provide another option for lending to the smallest of small businesses in our local community. Best of all, it would do it at no cost to the American taxpayer. H.R. 4293 is a sensible, no-cost, non-partisan solution that has been endorsed by 27 national and state organizations including: the National Farmers Union, the Society of American Florists, the American Nursery & Landscape Association, OFA—the Association of Horticulture Professionals and the Florida Nursery, Growers and Landscape Association (FNGLA).

Conclusion

After nursery and floriculture became Oregon's first "billion dollar commodity" in 2007 (the state's top agricultural commodity), farm gate dropped off by 36% to $667 million in 2011. The pain felt in our local community extends beyond the farm. According to County Business Pattern data from the U.S. Census Bureau, between 2002–2009, Oregon lost: 9.6% of its nursery, garden center and farm supply stores, 74.3% of its retail bakeries, 25.4% of its bookstores, 17.3% of its florists, 30.8% of its gift stores and 12% of its dry cleaners.

Just as no one event presented in my testimony caused our family's business to close, no one reform of Federal policy will single-handedly allow us to start-up again. Rep. Schrader's Restore Main Street's Credit Act may not solve every credit access problem for every business, but at least it is something. H.R. 4293 is a good start.

It is impossible for me to say that a credit union would have been able to offer a local lending option would have allowed Clackamas Greenhouses to stay in business. It is just as difficult to say what reforms of the current farm credit system may have allowed us to pursue new business ventures. I do know, however, that my businesses and others throughout our local community may have had a better chance if given more options for local financial services.

Clearly our family does not give up easily when it comes to our livelihood and the family farm. Four years from now when our property lease is up, I would appreciate any additional options that Congress might afford for our next search.

Thank you again for the opportunity to submit this testimony for the hearing record.

DAVID W. NIKLAS,
President,
Clackamas Greenhouses Inc.

SUBMITTED LETTER BY KENNETH A. SPEARMAN, CHAIRMAN, FARM CREDIT SYSTEM INSURANCE CORPORATION

May 11, 2012

Hon. JEFF FORTENBERRY,
Chairman,
Subcommittee on Department Operations, Oversight, and Credit,
House Committee on Agriculture,
Washington, D.C.;

Hon. MARCIA L. FUDGE,
Ranking Minority Member,
Subcommittee on Department Operations, Oversight, and Credit,
House Committee on Agriculture,
Washington, D.C.

Re: House Agriculture Subcommittee on Department Operations, Oversight, and Credit Hearing on May 10, 2012

Dear Mr. Fortenberry and Ms. Fudge:

As Chairman of the Farm Credit System Insurance Corporation (FCSIC or Corporation), I am writing to request important changes to the Farm Credit Act of 1971 (Act), as amended, that would enhance our ability to protect investors while reducing costs for the Farm Credit System (System or FCS). Such changes would improve our ability to serve as receiver or conservator for a System institution, should the need arise, and give us other key powers for dealing with troubled institutions. The changes would ensure that FCSIC has express statutory receivership and conservatorship powers that are comparable to powers of other Federal receivers and conservators, so that FCSIC receiverships and conservatorships can be more economical and efficient, with less potential for uncertainty, litigation, and delay. I request that this letter be included in the record for the May 10, 2012 House Agriculture Subcommittee hearing referenced above.

The Farm Credit System obtains funds for lending primarily from the sale of insured debt obligations issued by the FCS banks. FCSIC, a government-controlled corporation, insures the $186 billion in FCS bank debt and provides protection for the investors who purchase FCS debt obligations by administering the $3.4 billion Farm Credit Insurance Fund (Insurance Fund). If an FCS bank failed to pay the principal and interest due on its debt, FCSIC is required to use the Insurance Fund to satisfy the default. Recognizing the importance of minimizing defaults, Congress also gave FCSIC the power to provide various types of financial assistance to stabilize troubled FCS banks and associations, as long as the statutory least-cost test is met. Another significant FCSIC role is serving as the receiver or conservator for troubled FCS institutions. Under existing law, if the conditions warrant, the Farm Credit Administration (FCA) appoints the Farm Credit System Insurance Corporation as conservator or receiver of any FCS bank. The statute also provides that FCSIC serve as conservator or receiver for any FCS association that is placed in a conservatorship or receivership. FCA can also ask FCSIC to serve as conservator or receiver for the Federal Agricultural Mortgage Corporation or can choose to appoint another party.

FCSIC has not had to use its statutory receivership or conservatorship authority since it became operational in 1993. At this time the Farm Credit System is in a safe and sound condition and no institutions are in danger of failing. FCSIC has been reviewing its authorities and comparing them to the powers and authorities of other Federal insurers that operate Congressionally mandated receiverships. In contrast to our powers and authorities, which have not been substantially updated since FCSIC's creation in 1987, statutory amendments have enhanced the receivership and conservatorship authorities of the Federal Deposit Insurance Corporation (FDIC), which serves as the receiver/conservator for commercial banks and thrifts, and the Federal Housing Finance Agency (FHFA), which serves as the receiver/conservator for the housing government-sponsored enterprises.

It appears that Congress authorized the Federal receivership powers in an effort to minimize the ultimate cost of financial institution failures and to provide for an efficient resolution process to liquidate assets and satisfy claims, while maintaining public and investor confidence. To accomplish these goals, Congress has given the FDIC and FHFA receivership powers and authorities that the FCSIC does not have expressly. Accordingly, FCSIC is requesting that Congress consider whether to amend the Farm Credit Act to add language generally modeled on statutory provisions applicable to other Federal receivers for financial institutions, but tailored for the Farm Credit System. For example, it would be helpful if provisions could be added that would clarify FCSIC's authority to repudiate or enforce contracts entered into before appointment of the conservator or receiver, depending on whether FCSIC determines that performance would be beneficial or that repudiation would promote the orderly administration of the institution's affairs. We believe there is a need to add provisions to clarify FCSIC's treatment of "qualified financial contracts" (including securities contracts, commodity contracts, swap agreements, and derivatives). It may also be appropriate to add an authorization for the FCSIC, once it is appointed receiver, to organize and the FCA to charter a bridge bank. A bridge bank is a temporary stabilizing solution that can receive the assets and liabilities of the troubled bank and perform other functions authorized in the Act. We hope that Congress will consider these and other options to clarify FCSIC's receivership and conservatorship powers.

Our goal in making these recommendations is to bring FCSIC's statutory powers more in line with those of other Federal receivers and conservators in order to ensure that the Corporation can function more effectively as receiver or conservator for FCS institutions in the future. By enabling FCSIC to act in an economical and efficient manner, with less uncertainty, litigation, and delay, the changes would ultimately contribute to the economic and financial stability of the Farm Credit System.

We appreciate your leadership on these issues and look forward to working with the Subcommittee's Members this year. I would be happy to visit with you or your staff if you need any additional information about this proposal.

Sincerely,

KENNETH A. SPEARMAN,
Chairman.

FORMULATION OF THE 2012 FARM BILL (COMMODITY PROGRAMS AND CROP INSURANCE)

WEDNESDAY, MAY 16, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:04 a.m., in Room 1300, Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Subcommittee] presiding.

Members present: Representatives Conaway, King, Neugebauer, Schmidt, Austin Scott of Georgia, Crawford, Huelskamp, Ellmers, Gibson, Hartzler, Schilling, Lucas (*ex officio*), Boswell, McIntyre, Walz, Kissell, David Scott of Georgia, Courtney, and Peterson (*ex officio*).

Staff present: Bart Fischer, Tamara Hinton, Kevin Kramp, Alan Mackey, Matt Schertz, Nicole Scott, Wyatt Swinford, Suzanne Watson, John Konya, Craig Jagger, C. Clark Ogilvie, Anne Simmons, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. This hearing of the Subcommittee on General Farm Commodities and Risk Management to discuss commodity programs and crop insurance in advance of the 2012 Farm Bill will now come to order.

Thanks to everybody for being here this morning. I want to thank our witnesses from both panels, and we will get to you here shortly. I would like to make my opening statement.

Through a series of hearings conducted both in the field and here in Washington, the House Agriculture Committee has extensively audited the cost-effectiveness of each of the policies under the Committee's jurisdiction. The hearings today and tomorrow will conclude this Subcommittee's part in that process. In fact, in a few weeks, the full Committee expects to take into consideration all that we have learned from these hearings and we will mark up this year's version of the farm bill.

When this Subcommittee's role in the audit hearing process began last summer, I laid out five measures by which I would judge any farm policy proposal. First, does the policy undermine crop insurance? Second, is the policy bankable? Third, is the policy tailored to producer risk? Fourth, are the crops covered under the commodities title treated equitably? And fifth, can producers and their lenders understand the policy? In my view, these are still the essential measures of a good farm bill.

Although I come from farm country and serve on the Agriculture Committee, I still believe our greatest responsibility as Members of Congress is to our taxpayers and the future generations of Americans that Washington has managed over the years to saddle with an excessive amount of debt. In keeping faith with that primary responsibility, I firmly believe that the farm bill should be better for farmers while at the same time being cheaper for our taxpayers.

This is going to mean achieving real reform and real cuts while not cutting the legs out from underneath a critical sector of the U.S. economy. This is going to be a tough needle to thread. But if a farm bill measures up to the five criteria I just laid out, I am confident that we can get there.

That said, I do not believe that our counterparts in the Senate have made passing a farm bill this year any easier. Frankly, by all five measures, the Senate bill fails our test. The Senate bill undermines crop insurance by setting up a revenue program that competes with and duplicates crop insurance. In fact, CBO indicates that the budget for crop insurance declines by about $2.4 billion as producers reduce their coverage they now have in favor of free coverage. Plus, when you leave out money carried over from the commodity title of the crop insurance to pay for the STAX Program, the net cut to crop insurance is over $700 million.

Crop insurance has also taken a drubbing in the press as editorial boards and everyone else confuses successful crop insurance with the Senate's new revenue program. To be clear, I am not opposed to a farm policy that helps producers cover a portion of their deductibles, which can be very high, but I am convinced that the Senate's approach is the wrong way to do it. I think my colleague, Randy Neugebauer, is on the right track in this regard with a supplemental coverage option. If a producer wants to cover losses, he can buy that coverage.

Beyond trying to duplicate what crop insurance is for, the Senate bill fails to address the one risk that crop insurance is not designed to do, and that is to help get producers through prolonged periods of low prices without the need for Congress to come in and pass expensive and unbudgeted *ad hoc* disaster assistance. I believe the days of *ad hoc* disaster assistance should be behind us.

In short, the Senate bill has no price protection and is therefore not bankable to farmers and not fiscally responsible to taxpayers. So far, this problem has been misreported as a North-South issue, but let me just say this. If we have a few more weeks of commodity prices taking the kind of thumping they took last week, the importance of meaningful price protection in a farm bill will become clear to everyone.

Crafting a farm bill that sends out payments in relatively good times but leaves farmers shorted in bad times does not make sense. The equivalent is to buy health insurance that covers your annual physical but does not cover you when you actually get sick. The one-size-fits-all approach taken by the Senate also means that farmers are unable to tailor policies to meet their unique risk management needs. As a result, these producers for whom the Senate's policy is specifically designed and tailored would reap too rich a benefit while the rest would receive little, if any, benefit at all. In my view, perhaps one thing worse than writing a farm bill that is inadequate to deal with a crisis is writing a farm bill that at least for some removes the risk to farming entirely. Neither is good for U.S. agriculture and neither is good for our taxpayers.

In closing my remarks on the commodity title, let me state the obvious: Washington over thinks things. While my farmers tell me that the farm bill needs to address only that which crop insurance does not address, some in Washington are busy duplicating crop insurance while ignoring the hole in the safety net that they are supposed to be closing. This has not only drawn fire from critics but has also confused producers and bankers to the point they can't understand what is happening with the farm bill.

Finally, I would like to note that while the four principles of the House Agriculture and Senate Agriculture, Nutrition, and Forestry Committees had all agreed last fall to a specific policy that would have generated $4 billion in savings from the Food Stamp Program, the Senate did not include the full change in its bill because they later learned that CBO now assumes that that same policy would achieve $8 billion in savings instead. Meanwhile, the Senate increased the share of deficit reduction that the commodity title and crop insurance would bear from $15 billion agreed to last year to roughly $18 billion today. This and all the rest leads me to conclude that what the Senate has before it cannot be called a farm bill. Fortunately, I am confident that in the House process, we will cut spending, we will reform and streamline the policies and we will eliminate duplication and achieve regulatory reform, and in this process we will restore balance and equity and put the farm back in the farm bill.

I look forward to hearing our witnesses this morning and Members of the Subcommittee on how we can make this happen.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Through a series of hearings, conducted both in the field and here in Washington, the House Agriculture Committee has extensively audited the cost-effectiveness of each and every one of the policies under the Committee's jurisdiction. The hearings today and tomorrow will conclude this Subcommittee's part in that process. In fact, in a few weeks, the Committee expects to take into consideration all that we have learned from these hearings and mark-up a new farm bill.

When this Subcommittee's role in the audit hearing process began last summer, I laid out five measures by which I would judge any farm policy proposal. First, does the policy undermine crop insurance? Second, is the policy bankable? Third, is the policy tailored to producer risk? Fourth, are the crops covered under the commodity title treated equitably? And, fifth, can producers and their lenders understand what the policy is?

In my view, these are still the essential measures of a good farm bill.

Although I come from farm country and serve on the Agriculture Committee, I still believe our greatest responsibility as Members of Congress is to the taxpayer and to the future generations of Americans that Washington has managed over the years to saddle with debt. In keeping faith with that primary responsibility of ours, I firmly believe that the farm bill needs to be a lot better for farmers while being a lot cheaper for taxpayers. That is going to mean achieving real reform and real cuts while not cutting the legs out from underneath a critical sector of the U.S.

economy. This is a tough needle to thread. But, if a farm bill measures up to the five criteria that I just laid out, I am confident we can get there.

That said, I do not believe that our counterparts in the Senate have made passing a farm bill this year any easier. Frankly, by all five measures the Senate farm bill fails the test. The Senate bill undermines crop insurance by setting up a revenue program that competes with and duplicates crop insurance. In fact, CBO indicates that the budget for crop insurance declines by about $2.4 billion as producers reduce the coverage they now buy in favor of free coverage. Plus, when you leave out money carried over from the commodity title to crop insurance to pay for STAX, the net cut to crop insurance is over $700 million. Crop insurance is also taking a drubbing in the press as editorial boards and everyone else confuses successful crop insurance with the Senate's new revenue program. To be clear, I am not opposed to a farm policy that helps producers cover a portion of their deductibles, which can be very high, but I am convinced the Senate's approach is the wrong way to do it. I think my colleague, Congressman Neugebauer, is on the right track in this regard with his supplemental coverage option. If a producer wants to cover shallow losses, he can buy coverage to do that.

Beyond trying to duplicate what crop insurance is for, the Senate farm bill fails to address the one risk that crop insurance is not designed to do and that is to help get producers through prolonged periods of low prices without the need for Congress to come in and pass expensive and unbudgeted bailouts. The days of *ad hoc* disaster assistance are over. In short, the Senate bill has no price protection and is, therefore, not bankable to farmers and not fiscally responsible to taxpayers. So far, this problem has been misreported as a North-South issue. But, let me just say this: if we have a few more weeks of commodity prices taking the kind of thumping that they took last week, the importance of meaningful price protection in a farm bill will become clearer to everyone. Crafting a farm bill that sends out payments in relatively good times but leaves farmers shorted in bad times does not make sense. The equivalent is to buy health care that covers your annual physicals but does not cover you when you actually get sick.

The one-size-fits-all approach taken by the Senate also means that farmers are unable to tailor policies to meet their unique risk management needs. As a result, those producers for whom the Senate's policy was specially designed and tailored would reap too rich a benefit while the rest would receive little if any benefit at all. In my view, perhaps the one thing worse than writing a farm bill that is inadequate to deal with a crisis is writing a farm bill that, at least for some, removes the risk of farming entirely. Neither is good for U.S. agriculture. Neither is good for the taxpayer.

In closing my remarks on the commodity title, let me just state the obvious. Washington over thinks things. While my farmers tell me that the farm bill needs to address only that which crop insurance does not address, some in Washington are busy duplicating crop insurance while ignoring the hole in the farm safety net that they are supposed to be closing. This has not only drawn fire from critics, but it has also confused producers and bankers to the point that they cannot make heads or tails of their farm bill.

Finally, I would note that while the four principals of the House and Senate Agriculture Committee had all agreed last fall to a specific policy that would have generated $4 billion in savings from the Food Stamp program, the Senate did not include the full change in its bill because they later learned that CBO now assumes that same policy would achieve $8 billion in savings instead. Meanwhile, the Senate increased the share of deficit reduction the commodity title and crop insurance would bear from $15 billion agreed to last year up to roughly $18 billion this year.

This and all the rest leads me to conclude that what the Senate has before it cannot be called a farm bill at all. Fortunately, I am confident that in the House process we will cut spending, we will reform and streamline policies, we will eliminate duplication and achieve regulatory reform, and in this process we will restore balance and equity and put the "farm" back in the farm bill.

I look forward to hearing the views of our witnesses and Members of the Subcommittee on how we can make this happen. But, first, I would recognize my good friend, the Ranking Member, for any opening statement that he may have.

The CHAIRMAN. First, I would like to recognize the full Ranking Member for any statement that he might have.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and thank you for holding today's hearing and for the witnesses that are with us.

As everybody knows, the Senate Agriculture Committee has passed a bill, and I am hopeful that after the next recess, this Committee will be able to do the same. The Senate bill builds on a lot of the work that we did last fall in the Super Committee, and a lot of it they got right but I share the Chairman's concerns about the commodity title, and we need to sort through that.

As I said before, I don't think it is possible that we have the resources that we can have one program that fits all commodities, all regions of the country. I just don't think it is going to work that may. And I know there is a lot of interest in the Shallow Loss Program but, if prices were to collapse today which some people say we are in a zone here where the prices are never going to go down again. Well, this is the same thing we heard in 1996, the Freedom to Farm, and I just want to remind everybody, we spent quite a bit more money than we saved with the Freedom to Farm to bail everybody out.

The thing that people need to understand this time, if this happens, there is no money coming from Washington. You can forget about getting bailed out. So if we get this thing wrong, good luck.

So what I am concerned about is what happens if that plays out, and that is why I have been a supporter of target prices. I think it solves some of the problems we have in some of the regional areas. Frankly, with the crop insurance, I don't think we should change that. I think at this point we have made significant changes. We had a re-rating. We had an SRA. We have had reductions. And we don't know the effects of those changes, and I don't think we should do anything until we actually get hard data about what happened before we go off on doing something with crop insurance.

But what I am concerned about crop insurance is working well today with the prices being what they are and with these enterprise unit revenue coverage with 80 percent subsidies, it is a heck of a deal. The problem is, though, it will protect you this year, but if these prices go down and we end up with $3 corn, you are going to be buying insurance for a loss. I am not sure the revenue coverage is going to be enough to make up for that. So that is why I am interested in the target prices and putting some kind of floor under this in cases these prices do go down.

I am going out next week and meet with my farmers all over my district and talk about this, but it just seems to me that with the subsidy that we have on these enterprise units, which a lot of people in my area are going to, I don't know why you wouldn't. If we had a target price system why you wouldn't take the insurance because it is relatively cheap and then take the target price so you have some protection. I don't know why you need the revenue when you can buy 85 percent coverage for $15 an acre, I have people in my area that are doing that.

We need to really work through this commodity title to make sure that what we do here is going to stand the test of time, that it is going to work if we get a collapse in these prices, which seems we always do at some point. And frankly, in order to get this bill done, we have to take care of the concerns of cotton, and once we have that resolved, then rice and peanuts, which don't have a crop insurance system that works for them at this point. Rice is getting close to putting something together. I think we are finally making some progress on getting a reference price or some kind of a price we can rely on for peanuts, but they are not going to be ready for this year. I think that is another thing that argues for using a target price concept to get through this.

So I look forward to working with everybody on this and I have no doubt that this Committee is going to work in a bipartisan fashion and we are going to come up with something that is going to work for all parts of the country, and hopefully continue the tremendous success that we have had in agriculture. It is the one part of the economy that is working. It is the one part of the economy that has maintained jobs, created jobs and we certainly don't want to screw it up.

So with that, Mr. Chairman, I will yield back.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you Chairman Conaway and Ranking Member Boswell for holding today's hearing.

As everyone knows the Senate Agriculture Committee has already passed a farm bill and I'm hopeful that after this next recess this Committee will be able to do the same.

The Senate bill builds on a lot of the work that we did last fall as part of the Super Committee process and, for the most part, they got it right. What I'm concerned about though is that it seems they've tried to create a one-size-fits-all commodity program. As I've said before, I don't think that's possible; we simply don't have the necessary resources to create a single program that will work for all commodities in all regions.

I know there's a lot of interest in a shallow loss program; if prices were to collapse today, the various proposed shallow loss programs would provide a fair safety net for this year. But my concern is with what happens when these prices go down—which they will—and stay down as has happened in the past. This occurred after Freedom to Farm in 1996 and we ended up spending even more money to bail people out. We know that won't be an option this time around. It's all good to look at this when the prices are good and everybody has been making a lot of money but I have been around long enough to know that it is going to eventually go the other way.

I think we need to take a look at raising target prices. I've always been a big fan of target prices because it gives farmers a price floor on which they can rely. I think this is most likely our best bet for a safety net when prices collapse and take time to rebound. Critics of raising target prices argue that this will mean farmers planting for the marketplace. But if you look at target prices in relation to the market and the cost of production, I just don't see how this is going to affect what people plant.

Crop insurance is widely supported across the countryside and is a key farm safety net feature. But, as Keith Collins will later testify, crop insurance provides protection for the risk of price decline within a crop year, not across crop years. If prices go down and stay low, the revenue insurance will become less appealing and farmers are going to find themselves insuring for a loss. Again, that is why I am interested in target prices.

I'm hesitant to make any cuts to crop insurance though because we don't know the full effects of the SRA and the changes that were part of the last farm bill. We've also got the southern growers—peanuts and rice—who haven't been able to figure out a way to make crop insurance work for them. I've had discussions about this whole issue of tying conservation compliance to crop insurance and frankly I don't see how it can work without doing serious damage to the crop insurance system.

Before I finish, we all know that to get our budget under control everyone is going to have to do their part; everything has to be on the table. I think we can reduce farm bill spending in a responsible way. I remain concerned, however, about the pressures to make unreasonable cuts that could potentially blow this whole process up. The Ryan budget, which was supported by the majority on this Committee, calls for an unrealistic $33 billion cut to the commodity and crop insurance programs that we are discussing today.

Now, the Agriculture Committee has a strong tradition of being reasonable and working together in the best interests of our constituents. It's my hope that when the time comes to actually sit down and take up a new farm bill, we'll be able to get beyond this ideology and all this partisanship to pass a good bill.

And with that, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you, Mr. Peterson.

Mr. Lucas, any comments you would like to make, the full Chairman?

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. LUCAS. I want to thank you, Mr. Chairman. I want to thank Chairman Conaway and Ranking Member Boswell for holding today's hearing to review the commodity programs and crop insurance as we prepare for the next farm bill.

Last June, the Committee started the farm bill process by holding 11 audit hearings focusing our attention on the U.S. Department of Agriculture to look for ways to improve programs for farmers, increase efficiency and reduce spending. We then went to the countryside this spring to hear directly from producers in the field, and now we are in the midst of wrapping up our final hearing series in Washington before we begin writing legislation.

Along with crop insurance, Title I programs establish the very fabric of the farm safety net. They ensure that dramatic swings in commodity prices and volatile weather don't put farmers and ranchers out of business. Further, they ensure that we as consumers always have a stable food and fiber supply. That safety net has to exist for all regions and all crops and it has to be written with bad times in mind. These programs should not guarantee that the good times are the best but rather that the bad times are manageable.

Like many of the farmers we heard from during our field hearings, I know firsthand about the challenges we are trying to mitigate with sound farm policy. I started my farming operation with a wheat crop that put me in what could politely be described as a financial squeeze 35 years ago. The second wheat crop performed better. It matched the historic record for the farm, and the difference between those two crops simply was rain. It rained at the right time on the second crop; did not on the first. And I'll also note to anyone who is a young farmer, it is a good thing to match your landlord's best year but it is also a good thing not to exceed his best crop ever. So I survived that test.

And you have to remember, I come from the Southern Plains. I live in a community in western Oklahoma where the historic average rainfall is somewhere between 24 and 28 inches a year. It is great when it comes over 7 different nights. Occasionally it comes in 3 nights. But that is a part of the challenge. And I know personally that if Mother Nature cooperates, you make a wheat crop. If Mother Nature doesn't, then you spend a lot of hours with your banker discussing how to get around the option of having a second crop.

So these early experiences, yes, 35 years ago, and by the way, that is why my freshman year was spent at Sayre Junior College instead of Oklahoma State, was the effect of that first attempt at wheat farming on my personal finances, have given me an appreciate for just how challenging agriculture can be. And it gave me an appreciation for an effective safety net and crop insurance and all the other matters that this Committee considers.

Our farmers and ranchers have to deal with the uncertainties of weather, the insecurities of market and many times dramatically unfair foreign competition. So it is critical that we get the policy right. With all the challenges that our farmers face, farm policy can't be one of them.

And to that end, I have said many times, and it is a reflection of what my colleagues have just noted, the farm bill that we craft has to recognize the diversity of agriculture in America. It has to work for all regions and all commodities, and that is why it is vitally important that the commodity title provide producers with options so they can choose the program that works best for them, whether it is protecting revenue or price.

Additionally, the Agriculture Committee has heard very clearly from producers the importance of crop insurance, and I am committed to providing a strong crop insurance program for them.

Today and tomorrow, we will hear from economists and a variety of agricultural leaders. I thank you for sharing your insights with us. The road ahead of us won't be easy, and I am confident that working together we can craft a farm bill that continues to support the success story that is American agriculture, and thank goodness, once again, let me say without any hesitation, the comity, the civility of the relationship that I think all Members of the House Agriculture Committee have with each other. We want to get the policy right, we want to make it happen, and we are working together

Again, thank you, Mr. Chairman, thank you, Mr. Ranking Member for this hearing today.

[The prepared statement of Mr. Lucas follows:]

PREPARED STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Good morning.

I want to thank Chairman Conaway and Ranking Member Boswell for holding today's hearing to review commodity programs and crop insurance as we prepare for the next farm bill.

Last June, the Committee started the farm bill process by holding 11 audit hearings—focusing our attention on the U.S. Department of Agriculture—to look for ways to improve programs for farmers, increase efficiency and reduce spending.

We then went out to the countryside this spring to hear directly from producers in the field. Now we are in the midst of wrapping up our final hearing series in Washington before we begin writing legislation.

Along with crop insurance, Title I programs establish the very fabric of the farm safety net. They ensure that dramatic swings in commodity prices and volatile weather don't put farmers and ranchers out of business. Further, they ensure that we—as consumers—always have a stable food and fiber supply.

That safety net has to exist for all regions and all crops, and it has to be written with bad times in mind. These programs should not guarantee that the good times are the best, but rather that the bad times are manageable.

Like the many farmers we heard from during our field hearings, I know firsthand about the challenges we're trying to mitigate with sound farm policy.

I started my first farming operation with a wheat crop that put me in a financial squeeze. The second wheat crop performed better. It matched the historic record for the farm. The difference between those two crop seasons was rain. It rained at the right time for the second crop; it didn't for the first.

Remember, I'm from the Southern Plains in a community where the historic rain average is somewhere between 24 and 28 inches. It usually comes in 4 nights. I know personally that if Mother Nature cooperates, you make a wheat crop. If Mother Nature doesn't, you sort out your finances.

This early experience gave me an appreciation for just how challenging agriculture can be. It gave me an appreciation for an effective safety net and crop insurance, and all the other matters this Committee considers.

Our farmers and ranchers have to deal with the uncertainties of weather, the insecurities of markets, and many times dramatically unfair foreign competition, so it's critical that we get policy right. With all the challenges that our producers face, farm policy can't be one of them.

To that end, as I have said many times, farm policy has to be equitable. The farm bill that we craft has to recognize the diversity of agriculture in America. It has to work for all regions and all commodities.

That's why it is vitally important that the commodity title provide producers with options so they can choose the program that works best for them whether it is protecting revenue or price.

Additionally, the Agriculture Committee has heard very clearly from producers the importance of crop insurance. I am committed to providing a strong crop insurance program for them.

Today and tomorrow, we'll hear from economists and a variety of agricultural leaders. I thank you for sharing your valuable insight with us. The road ahead of us won't be easy. But I'm confident that by working together, we can craft a farm bill that continues to support the success story that is American agriculture.

The CHAIRMAN. Thank you, Mr. Chairman.

I now turn to my good friend, Leonard Boswell, for any comments he has to make.

OPENING STATEMENT OF HON. LEONARD L. BOSWELL, A REPRESENTATIVE IN CONGRESS FROM IOWA

Mr. BOSWELL. I will be short. I think I will just summarize. I appreciate that I was able to get through traffic and hear some of what Congressmen Peterson and Lucas had to say. And I missed yours, Mike, but I am sure it was good, and I would probably associate myself with it.

Congressman Lucas, you have caused me to reflect a little bit. I left a career in the military and came back to continue my dream about that time, that many years ago, and walked right into the ag crisis we had in the late 1970s, early 1980s. Mr. King, you remember some of that.

Mr. KING. Oh, yes.

Mr. BOSWELL. And I got through it.

But I just concur with what you have said. I think we have to do those things. And I go back to my three A's, if you will, the safety net has to be Federal Crop Insurance that is available, accessible and affordable. And so with that, I would like to submit my formal notes for the record, if I could, and let us get moving along. Thank you so much.

[The prepared statement of Mr. Boswell follows:]

PREPARED STATEMENT OF HON. LEONARD L. BOSWELL, A REPRESENTATIVE IN CONGRESS FROM IOWA

I would like to thank everyone for joining us here today as we discuss America's commodity programs and crop insurance. I would especially like to thank our witnesses today. This Committee looks forward to hearing your valuable insight as we work to craft the Food, Conservation, and Energy Act of 2012.

Being from Iowa, one of the largest agricultural states in the country, I understand the challenges that farmers and those in the agriculture business are facing today. With Iowa ranking number one in the nation in pork, egg, corn and soybean production, the farm bill affects a great deal of my home state. Much of Iowa's economy is directly or indirectly tied to agriculture and bioscience in some fashion and we are proud of our strong tradition of feeding and fueling, the world.

I believe that is why it is so important for us to construct a bill that will not only help Iowa move forward but the rest of the country as well.

Now more than ever an adequate safety net is essential to ensure that we maintain the safest, most plentiful and most affordable food supply in the world. Each year approximately 90 million people are added to the world population. Although it is a daunting task, I am confident that America's producers will acclimate and innovate to produce the nutrition that is needed across the world.

Unfortunately, doing more with less is something this Committee is all too familiar with. That is just one reason we must come together and complete farm bill this summer to avoid further reductions to farm programs.

This legislation is critical to programs that conserve land, invest in local economies, and provide risk mitigation for producers. A big reason our producers succeed in an industry that relies on uncontrollable forces—the rain, sun, and soil—is because we provide a support system. In return, they have given Americans the most abundant, safe, and affordable food on the planet.

Thank you again to the witnesses testifying before the Subcommittee. Your testimony will be an essential means for us as we continue to move forward with the 2012 Farm Bill.

The CHAIRMAN. Thanks, Mr. Boswell.

The chair would request that other Members who have opening statements that you would submit those for the record so that we can now begin our testimony.

The first panel is distinguished economists, and I am tickled to death that they chose to come here this morning. First off, we will have Dr. Joe Outlaw, Professor and Extension Economist, Department of Agricultural Economics, and Co-Director, Agricultural and Food Policy Center for Texas A&M University, College Station. We have Dr. Gary Schnitkey, Professor, Department of Agriculture and Consumer Economics, University of Illinois, Urbana, Illinois, and Dr. Keith Collins, Economic Advisor to the National Crop Insurance Services, NCIS, or the Naval Criminal Investigative Service, depending on how you want to associate yourself, former USDA Chief Economist from Centreville, Virginia. Thank you, gentlemen, for being here.

Dr. Outlaw, you may begin.

STATEMENT OF JOE L. OUTLAW, PH.D., PROFESSOR AND EXTENSION ECONOMIST-FARM MANAGEMENT & POLICY, DEPARTMENT OF AGRICULTURAL ECONOMICS, TEXAS A&M UNIVERSITY; CO-DIRECTOR, AGRICULTURAL AND FOOD POLICY CENTER, COLLEGE STATION, TX

Dr. OUTLAW. Chairman Conaway, Members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University as you begin to formulate the commodity and risk management provisions of the next farm bill.

As many of you know, our primary focus has been on analyzing the likely consequences of policy changes at the farm level with our one-of-a-kind data set of information that we collect from commercial farmers and ranchers located across the United States. For 29 years, we have worked with the Agriculture Committees in both the U.S. Senate and House of Representative, providing Members and Committee staff objective research regarding the potential farm-level effects of agricultural policy changes. Working closely with commercial producers has provided our group with a unique perspective on agricultural policy. While we normally provide the results of policy analysis to your staff without commentary, I was specifically asked to provide some preliminary analysis and perspective today.

The results I am going to discuss were developed with FAPRI at Missouri's recently completed January 2012 10 year baseline projections, and we will focus on 64 crop farms located in 19 states. For this hearing, we conducted a preliminary analysis of the PLC Program as defined in the farm bill proposal to the Super Committee and the ARC as defined in the Senate Agriculture Committee passed language. We applied these options to the representative farms under the current prices and a low-price scenario.

In the low-price scenario, commodity prices were decreased each year by the same percentage for all commodities until they were roughly ½ of the 2011 baseline price. In general, we found the following: The ARC program provided higher Title I safety net support than PLC under the baseline price projections. That was 43 out of 64 farms. I would note that three farms are 100 percent cotton, would be in STAX, so the rest of the numbers I am going to give you are basically out of 61. However, when you combine SCO, the overall net cash farm income would be highest for PLC and SCO for 60 out of 61 farms compared to ARC SCO. Under the low-price scenario, the results were 51 out of 64 farms would prefer the PLC, and again, the net income would be protected greater under the PLC SCO program under low prices.

Additionally, a few points come to mind out of this analysis. The producer safety net has been an important part of agriculture policy for many years, not a guaranteed profit or a guaranteed portion of the baseline, but a minimum level of support that will allow a producer to withstand the occasional setback due to poor yields, prices or adverse effects from world events. Second, most would agree that the safety net should provide assistance when producers need it and not provide assistance when producers don't need it. Obviously, deciding when and how much assistance producers need is a key.

The discussion surrounding the price loss coverage alternative and ARC alternative has been interesting. Most of the attention has been placed on the potential problems that a fixed reference price in the PLC Program could create in terms of driving planting decisions. In reality, a reference price will not drive planting decisions if the reference price is set below the cost of production, especially with the relatively high current prices for some crops. In the event of a price decline, producers will never receive the actual reference price for their crop due to the payment fraction and the difference between the countercyclical payment yields and actual yields.

There is a standard complaint that some commodities would not get their fair share of baseline dollars with the PLC Program. My answer is that if the reference price of the commodity is taken into account, cost of production, then if the commodity didn't receive any government payments, then the commodity didn't warrant any because market prices were greater than the effective reference price.

What I find most interesting is that no one is talking about the ARC Program's ability to enable some commodities to nearly lock in a profit for at least a few years because ARC uses market prices and a revenue benchmark that are near their all-time high. *Figures 2* through *6* provide a 37 year look at the 5 year Olympic average market prices that would be used in the revenue benchmark for selected program crops. The vertical line on each graph indicates the break between historical prices and CBO March baseline prices. The horizontal line across each graph is our estimate of the average cost of production for producing the commodity in our representative farms in 2011. You will notice that corn, soybeans, wheat and grain sorghum are projected to have 5 year Olympic average prices that are above 2011 production costs. If paid on planted acres, the revenue safety net program could nearly guarantee a profit to these crops, depending on the final payment fraction, while others protected a loss.

And finally, the days of one safety net program for all program commodities are likely over. It is apparent that many would like to see a revenue-based plan that does not work for everyone the same. In this situation, it would seem reasonable to allow producers a choice.

Mr. Chairman, this completes my statement.

[The prepared statement of Dr. Outlaw follows:]

PREPARED STATEMENT OF JOE L. OUTLAW, PH.D., PROFESSOR AND EXTENSION ECONOMIST-FARM MANAGEMENT & POLICY, DEPARTMENT OF AGRICULTURAL ECONOMICS, TEXAS A&M UNIVERSITY; CO-DIRECTOR, AGRICULTURAL AND FOOD POLICY CENTER, COLLEGE STATION, TX

Chairman Conaway and Members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University as you begin to formulate the commodity and risk management provisions of the next farm bill. As many of you know, our primary focus as been on analyzing the likely consequences of policy changes at the farm level with our one-of-a-kind dataset of information that we collect from commercial farmers and ranchers located across the United States.

Our Center was formed by our Dean of Agriculture at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agriculture operations across the United States. For 29 years we have worked with the Agriculture Committees in both the U.S. Senate and House of Representatives providing Members and Committee staff objective research regarding the potential farm level affects of agricultural policy changes.

Working closely with commercial producers has provided our group with a unique perspective on agricultural policy. While we normally provide the results of policy analyses to your staff without commentary, I was specifically asked to provide some preliminary analysis and perspective today.

In 1983 we began collecting information from panels of four to six farmers or ranchers that make up what we call representative farms located in the primary production regions of the United States for most of the major agricultural commodities (feedgrain, oilseed, wheat, cotton, rice, cow/calf and dairy). Often, two farms are developed in each region using separate panels of producers: one is representative of moderate size full-time farm operations, and the second panel usually represents farms two to three times larger.

Currently we maintain the information to describe and simulate 98 representative crop and livestock operations in 28 states. We have several panels that continue to have the original farmer members we started with back in 1983. We update the data to describe each representative farm relying on a face-to-face meeting with the panels every 2 to 3 years. We partner with FAPRI at the University of Missouri who provides projected prices, policy variables, and input inflation rates. The producer panels are provided *pro forma* financial statements for their representative farm and are asked to verify the accuracy of our simulated results for the past year and the reasonableness of a 6 year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analyses.

The results I am going to discuss today were developed with FAPRI's recently completed January 2012 10 year baseline projections and will focus on the 64 crop farms located in 19 states.

For this hearing we conducted a preliminary analysis of the PLC program as defined in the farm bill proposal to the Super Committee and the ARC as defined in the Senate Agriculture Committee passed language. We applied these options to the representative farms under the current prices and a low price scenario. In the low price scenario, commodity prices were decreased each year by the same percent for all commodities until they were roughly ½ of the 2011 baseline price. In general, we found the following:

- The ARC program provided higher Title I safety net support than PLC under the Baseline price projections. (43 out of 64 farms)
- The PLC program provided higher safety net support from SCO (Title XI) under the Baseline price projections. (61 out of 61 farms) (three farms are 100% cotton and would be in STAX)
- Overall, net cash farm income is highest for PLC and SCO for 60 out of 61 farms.
- Under the low price scenario, PLC provided higher Title I safety net support than the ARC program. (51 out of 64 farms)
- The low price and baseline scenario indicated similar net cash farm income results for PLC and SCO.

Additionally, a few points come to mind out of this analysis.

The producer safety net has been an important part of agricultural policy for many years. Not a guaranteed profit or a guaranteed portion of the baseline, but a minimum level of support that will allow a producer to withstand the occasional setback due to poor yields, prices or adverse effects from world events. A lot of attention is being paid to relative payouts under the current CBO baseline, but it is much more important to understand how the safety net works when prices fall.

Second, most would agree that the safety net should provide assistance when producers need it and not provide assistance when producers don't need it. Obviously, deciding when and how much assistance producer's need is the key. The discussion surrounding the price loss coverage (PLC) alternative and the agriculture risk coverage (ARC) alternative has been interesting. Most of the attention has been placed on the potential problems that a fixed reference price in the PLC program could create in terms of driving planting decisions. In reality, a reference price will not drive planting decisions if the reference price is set below the cost of production, especially with the relatively high current prices. In the event of a price decline, producers will never receive the actual reference price for their crop due to the 0.85 payment fraction (85%) and the difference between countercyclical payment yields and actual yields.

Prior to the 1990s the safety net included target prices, deficiency payments, base acres, and acreage reduction programs. At that time, the safety net did drive planting decisions because program participation required planting on those base acres. This is not the case with currently discussed options as producers are allowed to choose the crop that is expected to be the most profitable for them.

There is the standard complaint that some commodities would not get their "fair share" of baseline dollars with the PLC program. My answer is that if the reference price for the commodity is set taking into account cost of production, then if a commodity didn't receive any government payments then that commodity didn't warrant any because market prices were greater than the effective reference price.

What I find most interesting is that no one is talking about the ARC program's ability to enable some commodities to nearly lock in a profit (for at least a few years) because ARC uses market prices in the revenue benchmark that are near their all-time high. *Figures 2–6* provide a 37 year look at the 5 year Olympic average market prices that would be used in the revenue benchmark for selected program crops. The vertical line on each graph indicates the break between historical prices and where CBO March 2012 Baseline prices were used to develop the 5 year average for future years. The horizontal line across each graph is our estimate of the average cost of production for producing the commodity on our representative farms in 2011. You will notice that corn, soybeans, wheat and grain sorghum are projected to have 5 year Olympic average prices that are above 2011 production costs. If paid on planted acres, the revenue safety net program could nearly guarantee a profit to these crops, depending on the final payment fraction while others protected a loss. This disparity in initial protection levels makes it difficult to provide similar levels of support to commodities with low benchmarks when using recent prices to set the revenue benchmark.

And finally, the days of one safety net program for all program commodities are likely over. Starting with the ACRE program, groups have attempted to capture the recent high market prices by using them to establish the revenue benchmark from which losses would be measured. In reality, this just doesn't provide every commodity with the same level of safety net protection. It is apparent that many would like to see a revenue based plan that does not work for everyone the same. In this situation, it would seem reasonable to allow producers a choice.

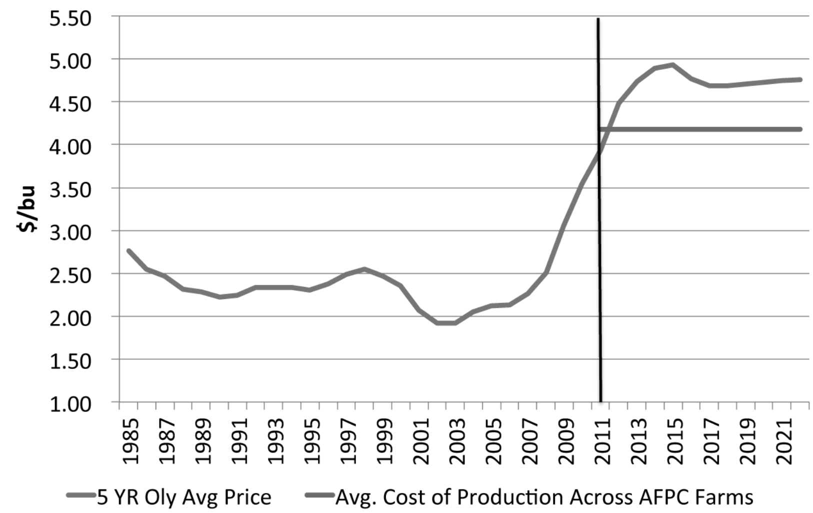
Mr. Chairman, that completes my statement.

CHARTS

Figure 1. Representative Farms and Ranches

Figure 2. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

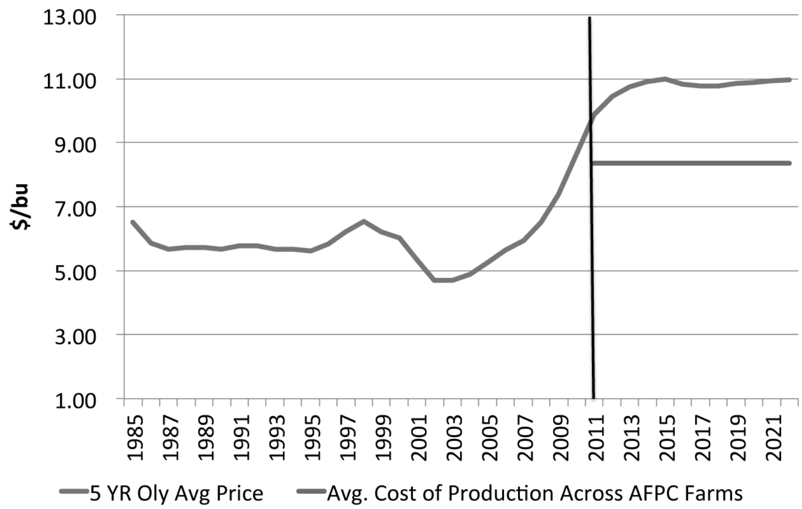
Corn



Uses March 2012 CBO estimate for future price in Olympic average calculation.

Figure 3. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

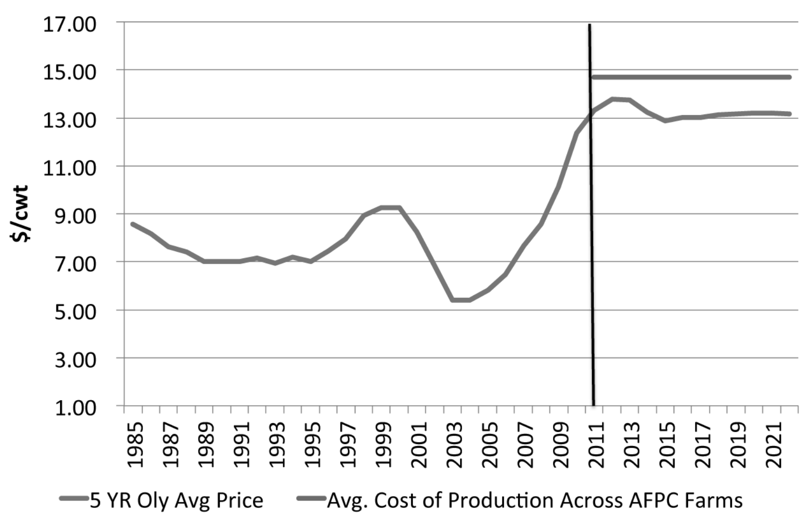
Soybeans



Uses March 2012 CBO estimate for future price in Olympic average calculation.

Figure 4. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

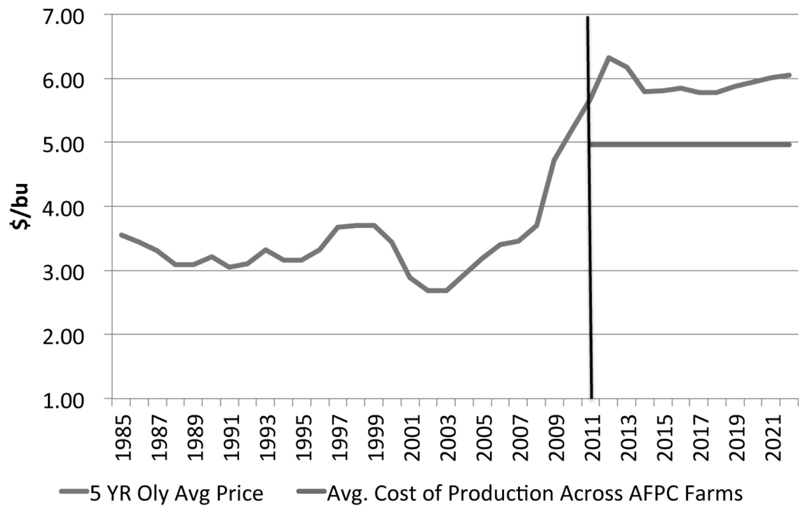
Rice



Uses March 2012 CBO estimate for future price in Olympic average calculation.

Figure 5. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

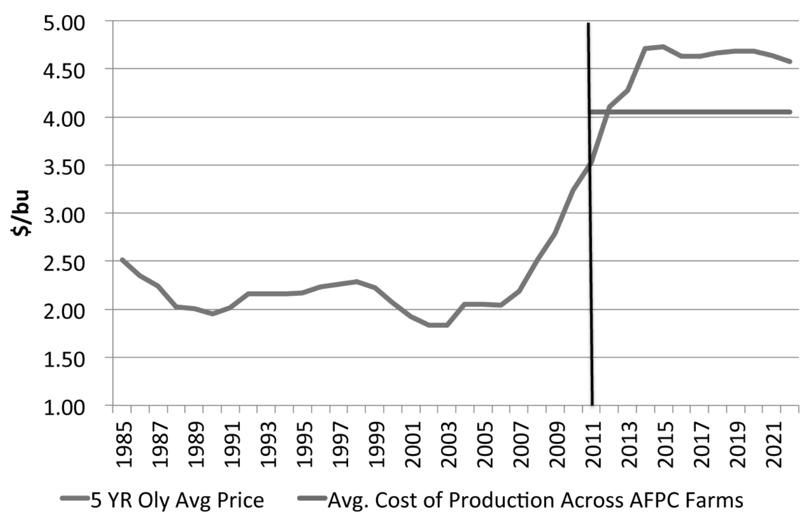
Wheat



Uses March 2012 CBO estimate for future price in Olympic average calculation.

Figure 6. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

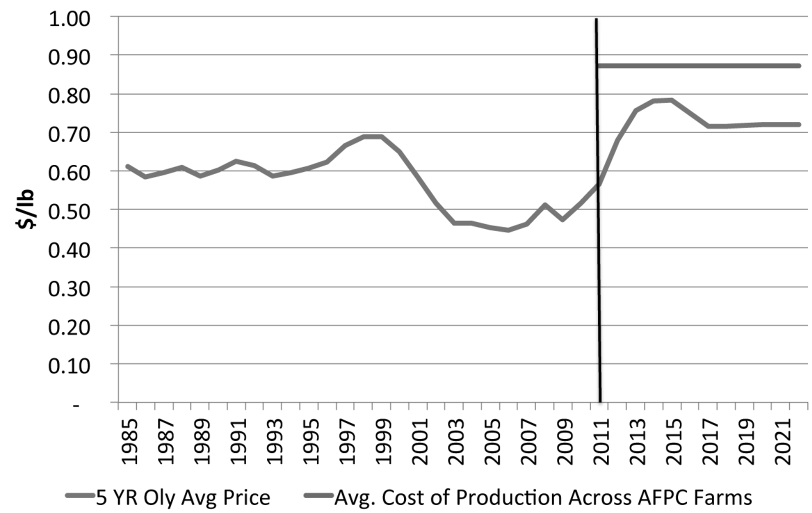
Grain Sorghum



Uses March 2012 CBO estimate for future price in Olympic average calculation.

Figure 7. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011

Upland Cotton



Uses March 2012 CBO estimate for future price in Olympic average calculation.

The CHAIRMAN. Thank you, Dr. Outlaw.
Dr. Schnitkey.

STATEMENT OF GARY D. SCHNITKEY, PH.D., FULL AND ASSOCIATE PROFESSOR, DEPARTMENT OF AGRICULTURAL AND CONSUMER ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA, IL

Dr. SCHNITKEY. Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee on General Farm Commodities and Risk Management, I thank you for this opportunity to speak with you today.

Much of the focus on the 2012 Farm Bill has been on risk management, and that is going to be the subject of my comments, and I have three of those.

First, as has already been mentioned here today, crop insurance is an important risk management program, and many farmers view it as their most important risk management program. We see very high use rates on crops. Corn, soybeans, wheat, cotton and peanuts have 80 percent of their acres on buy-up. Rice is lagging. But given the importance of crop insurance, it is important to keep improving crop insurance and meeting the needs equitably and efficiently for those crops such that crop insurance continues to be an important program.

The second thing related to crop insurance is that there are gaps in what crop insurance will provide. Crop insurance does a very good job of protecting against revenue within a year but if something happens that causes multi-year revenue to decline across years, there are gaps. One of the big ones that cause those are price declines. We saw that in both the 1980s and 1990s when many crop prices fell below their long-run averages. These are situations in which crop insurance wouldn't have covered those losses during those years.

The second point is that revenue-based programs can fill that gap if properly designed. Agricultural risk coverage, the policy or the program included in the Senate bill, does fill those gaps. In looking at corn in Illinois, if it had existed from 1977 through 2010, would have made payments in the 1980s and the late 1990s, both periods in which financial stress occurred because of low prices. Again, those risk management programs based on average prices and average yields react to the market and can provide useful coverage in those situations.

My third point is that payments on these revenue programs such as ARC will be relatively even when compared to the crop revenue. According to CBO estimates, corn, soybeans, wheat, cotton, rice and peanuts all fall within a two to five percent range, meaning according to CBO estimates, spending would be between two and five percent of the crop revenue projected over 2004 to 2012. That narrow range suggests that these programs will protect risk across those crops. We don't see one crop having a one percent range and ten percent range but it will provide protection. Obviously, there are other methods for doing that but risk revenue programs are one of those alternatives.

I thank the Committee for this opportunity to speak with you today.

[The prepared statement of Dr. Schnitkey follows:]

PREPARED STATEMENT OF GARY D. SCHNITKEY, PH.D., FULL AND ASSOCIATE PROFESSOR, DEPARTMENT OF AGRICULTURAL AND CONSUMER ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA, IL

Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee on General Farm Commodity's and Risk Management, thank you for this opportunity to address you as deliberations continue on the commodity and crop insurance titles of the 2012 Farm Bill. I am a professor in the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana-Champaign. My work focuses on risk and management issues related to farms. Much of this work has dealt with evaluating crop insurance and farm policy alternatives. I hold a research, extension, and teaching position, working extensively with farmers and farm groups.

Thus far, deliberations on the 2012 Farm Bill have taken a risk management focus. Related to that focus, I have six points which I wish to make. These points suggest that commodity programs focusing on revenue can complement widely used crop insurance programs.

Prices have increased for many crops since 2006: Between 1975 through 2006, corn prices average $2.35 per bushel (see *Table 1*). Since 2006, corn prices have average $4.64 per bushel, 1.97 times the price average from 1975 through 2006. Since 2006, soybean prices have been 1.77 times higher than from 1975 through 2006, wheat 1.89 times higher, cotton 1.22 times higher, and rice 1.83 times higher. Of the program crops shown in *Table 1,* peanuts are the only crop that did not have a price increase.

Table 1. National Crop Year Prices by Period

	Unit	Period		2007–11 Divided by 1975–06
		1975–2006	2007–2011P	
Corn	Bushel	2.35	4.64	1.97
Soybeans	Bushel	5.97	10.53	1.77
Wheat	Bushel	3.29	6.23	1.89
Cotton	pound	0.58	0.71	1.22
Rice	cwt.	7.74	14.18	1.83
Peanuts	lbs.	0.25	0.23	0.92

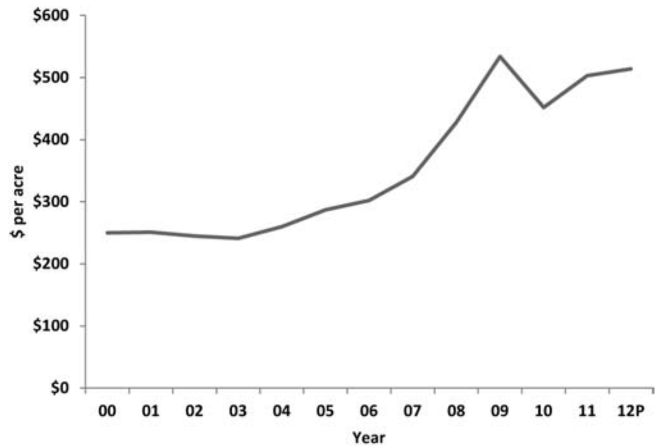
Source: National Agricultural Statistical Service.

Many agricultural economists believe that new long-run price averages have been reached since 2006. For example, Irwin and Good suggest that corn prices will average approximately $4.60 until some structural change occurs in the agricultural sector (see Marketing in a New Era, a March 29, 2011 entry on farmdocDaily *http://www.farmdocdaily.illinois.edu/2011/03/a__new__era__in__crop__prices.html*). Of course, there will be periods in which prices are $4.60, as has occurred in the last 2 years. There will also be periods in which prices average below $4.60. These low price periods could be extend and result in financial stress.

Higher commodity prices impact policy for three reasons. First, target prices and loan rates contained in the 2008 Farm Bill are relatively low compared to current prices for a number of commodities including corn, soybeans, and wheat. Hence, the traditional countercyclical and marketing loan programs provide little risk protection for these commodities. Second, determining appropriate target prices and loan rates in a volatile price environment is difficult. While many believe prices have reached new levels for some crops, there is no guarantee that those long-run price levels will not change again, leading to the need to again change target prices and loan rates. Third, the higher long-run averages for commodity prices do not mean an end to the boom to bust nature of agriculture. In the early to middle 1970s, commodity prices reached higher levels, leading to strong financial performance for many farms during the middle to late 1970s. This was followed by the 1980s, a period in which many farms faced financial stress. Similar events could happen again because production costs have risen, leading to my second point.

Production costs have risen. Production costs on crop farms have increased. This is illustrated in *Figure 1,* which shows per acre non-land costs to grow corn and soybeans on central Illinois farms with high-productivity farmland. This data comes from farms enrolled in Illinois Farm Business Farm Management (FBFM), a farm record-keeping and financial service offered to Illinois farmers. These costs are illustrative of overall cost trends faced in U.S. crop production.

Figure 1. Non-Land Costs for Corn, Central Illinois High Productivity Farmland

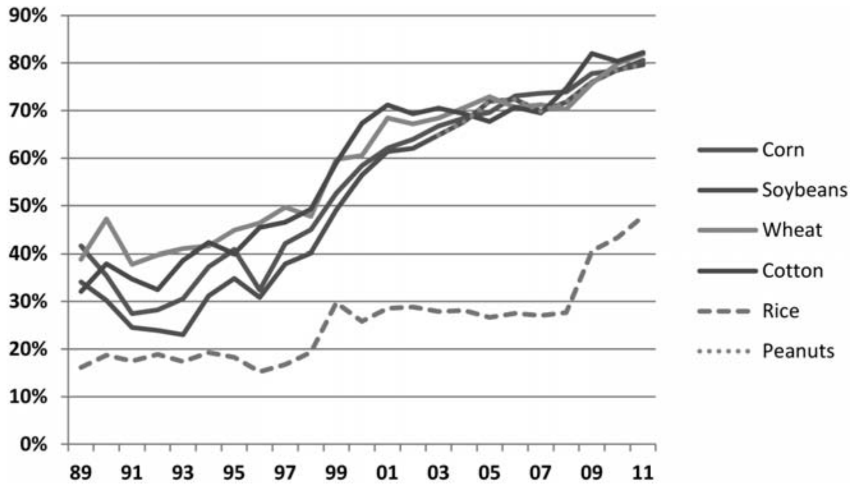


Source: Illinois Farm Business Farm Management.

For corn on these central Illinois farms, non-land costs have increased from an average of $262 per acre from 2000 through 2005 to projected levels of over $500 per acre in 2011 and 2012. These costs do not include land costs. An average cash rent for land of this productivity is about $300 per acre in 2012, with many cash rents being significantly higher than $300 per acre. Adding non-land costs of $500 per acre and land costs of $300 per acre gives total costs of $800 per acre. Given an expected yield of 195 bushels per acre, the breakeven corn price is $4.10 per bushel. These higher break-even prices illustrate that financial stress will occur at prices that are much higher post 2006. Prices below $4.00 without high yields to offset those lower prices would result in low and negative incomes on Illinois farms. The high levels of costs also illustrate the risks that exist. Low prices and yields can quickly lead to very large losses on farms.

Crop insurance has become a prime crop insurance program. Crop insurance use has increased over as illustrated in *Figure 1.* This figure shows acres insured using buy-up policies divided by acres planted as reported by the National Agricultural Statistical Services (NASS). As can be seen, insurance use has increased over time. In 2011, percent of acres insured using buy-up coverage were 81% for corn, 80% for soybeans, 82% for wheat, 82% for cotton, 80% for peanuts, and 48% for rice. Of these crops, the one lagging in participation is rice.

Figure 2. Crop Insurance Use as Percent of Planted Acres



Source: Risk Management Agency, National Agricultural Statistics Service.

On many farms, crop insurance has become the most important risk management tool. The importance of crop insurance as a risk management tool holds implications for the design of commodity title programs. First, commodity programs focusing on risks not covered by crop insurance would provide an important benefit. Crop insurance will cover yield and price losses that occur within a year. If, for example, yields are much lower than historic Actual Production History (APH) yields, those losses will be covered by crop insurance. Effectively, crop insurance provides disaster protection on those farms that purchase crop insurance.

Second, efforts should continue to ensure that crop insurance provides an equitable and effective safety net for all crops across all regions. In terms of equity, premium setting becomes an important issue. The Risk Management Agency (RMA) is charged with setting premiums such that total premiums roughly equal expected losses. Over time, this should result in total premiums equaling payments causing insurance payments divided by total premiums—the loss ratio—to roughly equal one. *Table 2* shows loss experience from 1995 through 2010 by crop. As can be seen loss ratios vary by crop with corn, soybeans, and rice having low loss ratios compared to other crops. This means that total premiums exceeded insurance payments. RMA conducts a study, finding that premiums were too high for corn and soybeans in the Midwest. Lower premiums are being implemented, with the first portion of the premium reduction implemented in 2012. Implementing the remaining reductions in future years is important in terms of equity. Other efforts to strengthen crop insurance should continue.

Table 2. Loss Ratio by Crop, 1995–2011

Crop	Loss Ratio
Corn	0.59
Soybeans	0.65
Wheat	0.97
Cotton	1.05
Rice	0.71
Peanuts	1.20

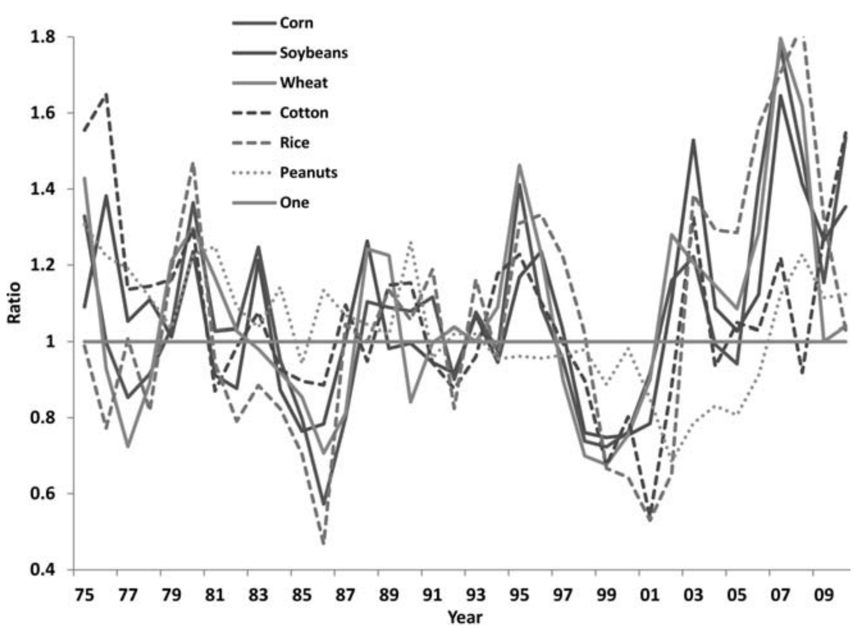
Source: Risk Management Agency.

Gaps exist in crop insurance coverage. Crop insurance provides effective coverage for yield and price declines that occur within the year. For revenue insurance, a price at the beginning of the growing season is set using futures contacts. This price is reflective of market conductions at that point in time and yields are based on historical yields. If prices or yields fall during the year, crop insurance will make payments. Hence, insurance provides coverage for yield and price declines that occur during the year.

The gap in coverage occurs when revenue declines across years. In the past, price declines would have caused these gaps. Crop insurance will not protect when prices decline across years, leading to lower guarantees at the beginning of the year. To illustrate, *Figure 1* shows price histories for corn, soybeans, wheat, cotton, rice, and peanuts; six crops that receive commodity program payments. Each year's price is stated as the current year price divided by the average of the five previous prices. A ratio below one indicates that that the current year's price is below the previous 5 year average. As can be seen in *Figure 3,* all crops have had periods in which crop revenue is below the 5 year average.

During two periods, a number of the commodities had prices below their 5 year averages: (1) in the mid-1980s and (2) in the late 1990s and early 2000s. Both of these periods were times of financial stress in agriculture. Lost revenue due to low prices during the mid-1980s and late 1990s would not have been covered by crop insurance, because projected prices would have adjusted downward. Not covering these losses suggests an important role for farm bill commodity programs. Farm bill commodity programs can cover revenue declines of a multi-year nature due to declining prices or other factors. These have been labeled "shallow losses" because they occur before crop insurance pays, but these shallow losses are what have caused financial stress in the agricultural sector in the past.

Figure 3. Current Price Divided by Five-Year Average, National Season Average Prices



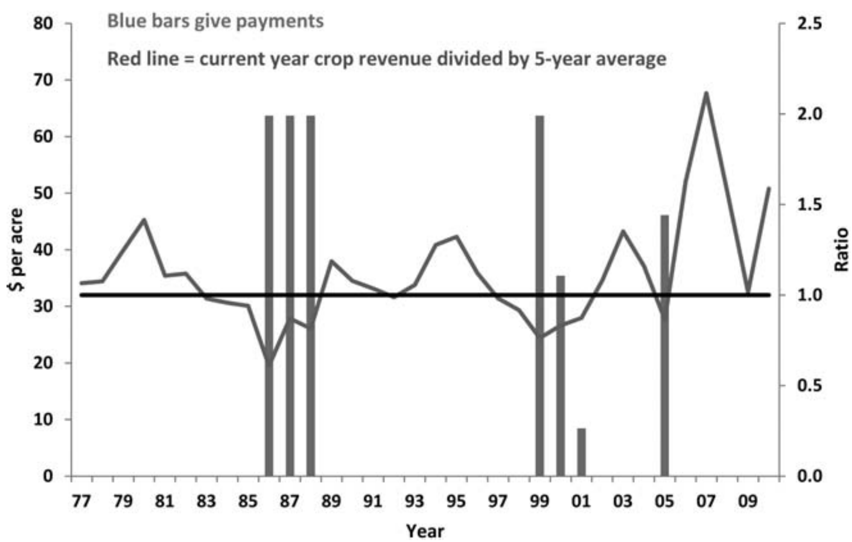
Farm Bill commodity programs based on revenue can aid in covering multi-year revenue declines. The Aggregate Risk and Revenue Management (ARRM) program sponsored by Senators Brown, Thune, Durbin, and Lugar is an example of such a program. The Agricultural Risk Coverage (ARC) program passed by the Senate Agriculture Committee is another example of such a program.

These programs typically have a higher coverage level. For example, ARC has a coverage level of 89% of benchmark revenue, where benchmark revenue is the 5 year Olympic average of prices times the 5 year Olympic average of county or farm yields, depending on a choice made by the farmer. These programs also have a maximum payment to reduce overlap with crop insurance.

Simulated historical payments suggest that payments occur in years in which revenues are low. *Figure 4* shows simulated ARC payments had it existed from 1977 through 2010 (More detail on this approach is given in a farmdocDaily blog post entitled *Comparison of ARRM **versus** SRRP Proposal* at *http://*

www.farmdocdaily.illinois.edu/2011/10/comparison_of_arrm_versus_srrp.html.) Had it existed, ARC would have made payments in 7 years. Six of those years would have occurred in 1986 through 1988 and 1999 through 2001. These two periods correspond to the years of financial stress in Midwest agriculture.

Figure 4. Simulated Payments from ARC, DeKalb County, Illinois



Note: Payments are stated in today's terms, not in historical terms.

ARC would make payments when prices fall below long-run averages. If ARC were implemented under today's conditions, payments would occur if corn prices fell below $4.00, given that yields are close to expectations (see ARC and Multi-year Price Declines in farmdocDaily *http://www.farmdocdaily.illinois.edu/2012/05/arc_and_multiyear_price_declin.html*). These ARC payments would cover a portion of the loss in revenue that occurred if prices decline and remain low over several years.

Revenue-based commodity program spending will be roughly proportional to crop value. According to Congressional Budget Office (CBO) projections, payments as a percent of crop revenue are likely to be within a narrow range of one another across crops. This suggests that costs relative to the value of the crop are near one another. For example, if projected costs are 2.5% of crop value for two crops, this suggests that the risk protection offered by the revenue programs have the same relative value. Having roughly the same percentages is one indicator that revenue-based programs will perform relative similarly across crops. Stated alternatively, revenue risks across crops result roughly in the same outlays as a percent of crop value.

Projected costs as a percent of crop revenue are shown in *Table 3,* which contains Congressional Budget Offices (CBO) spending projections under the farm bill contained in the Senate Manager's Amendment. The CBO score for this final Senate Agriculture Committee farm bill was not available when this testimony was written. There will be differences in projections in the farm bill passed by the Senate Agriculture Committee from those shown in *Table 3.*

Table 3. Congressional Budget Office Estimates under 2008 Farm Bill and Senate Manager's Amendment

	Congressional Budget Office (CBO) Spending Estimates (2014–2022)			Manager's Amendment Divided by Planted Acres[4]	Manager's Amendment as a Percent of Crop Revenue[5]
	2008 Farm Bill[1]	Senate Manager's Amendment[2–3]	Change		
	($Million)			$/acre	
Corn	20,199	14,335	−29%	17.70	2.13%
Soybeans	6,974	8,137	17%	11.78	2.31%
Wheat	10,058	3,614	−64%	7.64	2.70%
Upland Cotton	6,252	3,227	−48%	32.79	5.39%
Rice	3,913	963	−75%	35.08	3.52%
Peanuts	939	646	−31%	53.70	5.87%

[1] Based on CBO baseline released on March 13, 2012 (*www.cbo.gov/topics/agriculture*).
[2] Based on CBO baseline and April 26, 2012 estimates of Senate Manager's Amendment (*www.cbo.gov/topics/agriculture*).
[3] Includes STAX payments for cotton, and peanut revenue insurance for peanuts.
[4] Senate Manager's Amendment spending stated on a yearly basis divided by projected planted acres in March 13, 2012 CBO baseline projections.
[5] Planted acres divided by projected crop revenue in CBO March 2012 baseline.

CBO projected spending estimates are shown for 2014 through 2022, the period after the transition out of the 2008 Farm Bill and the full implementation of 2012 Farm Bill. On a per acre basis, projected spending is $17.70 per acre for corn, $11.78 for soybeans, $7.64 for wheat, $32.79 for upland cotton, $35.08 for rice, and $53.70 for peanuts.

Spending stated as a percent of crop revenue are near each other. Projected spending as a percent of crop revenue is 2.13 percent for corn, 2.31 percent for soybeans, 2.70 percent of wheat, 5.39 percent for upland cotton, 3.52 percent for rice, and 5.87 percent for peanuts (see *Table 3*). Corn, soybeans, and wheat payments are almost all ARC payments while the remaining crops have additional payments. Cotton, rice, and peanuts have significant projected marketing loan payments, peanuts include a new revenue product, and cotton is not in ARC but is in STAX. If rice and peanuts did not include programs other than ARC, the five crops with ARC programs would have spending as a percent of gross revenue to be relatively near one another. This suggests that there are not wide divergences in spending relative to crop value across crops.

Spending on a program like ARC will be different than under the current farm bill, where payments predominately arise from direct payments. According to CBO estimates, corn spending would decrease by 29% under the Senate Managers Amendment compared to the 2008 Farm Bill, soybeans would increase 17%, wheat decrease by 64%, upland cotton would decrease by 48 percent, rice by 75%, and peanut by 31% (see *Table 3*). Changes occur for two primary reasons. First, there are differences in base acres relative to planted acres. Most of the 2008 Farm Bill payments are direct payments, which are made on base acres. ARC, on the other hand, would make payments on a planted acre basis. Corn and soybeans have more planted acres than base acres (see *Table 4*). Soybean planted acres are 53% higher than base acres, resulting in the higher payments for soybeans. Wheat, cotton, rice, and peanuts are projected to have lower planted acres compared to base acres, leading to lower payments. Second, there are differences in average direct payment rates per acre compared to per acre spending projected for the manager's amendment. According to values in CBO baseline spending, corn has an average direct payment rate of $23 per acre, soybeans of $11 per acre, wheat of $14 per acre, cotton of $32 per acre, rice of $95 per acre, and peanuts are $54 per acre. Relative to per acre amendment spending, rice loses $60 per acre ($35 amendment spending in *Table 3*—$95 direct payment spending), wheat loss $6 per acre, corn losses $5 per acre. Soybeans, cotton, and peanuts have roughly the same spending per acre in the Manager's Amendment as compared to direct payments.

Table 4. Base and Planted Acres by Crop

Crop	Base Acres	Planted Acres	Planted as a % of Base
	Million acres		
Corn	84.1	90.0	107%
Soybeans	50.1	76.7	153%
Wheat	73.8	52.5	71%
Upland Cotton	18.1	10.9	60%
Rice	4.4	3.1	69%
Peanuts	1.5	1.3	91%

Source: Base and planted acres taken from March 2012 Baseline Spending from Congressional Budget Office.

Summary. A program that bases its payments on revenue can provide effective coverage that will mitigate risk. Designed properly, these programs can complement protection by crop insurance, and result in expenditures roughly proportional to crop value.

The CHAIRMAN. Thank you, Doctor.

Dr. Collins, your statement.

STATEMENT OF HON. KEITH COLLINS, PH.D., ECONOMIC ADVISOR, NATIONAL CROP INSURANCE SERVICES; FORMER USDA CHIEF ECONOMIST, CENTREVILLE, VA

Dr. COLLINS. Chairman Conaway, Mr. Boswell, Mr. Lucas and Mr. Peterson and other Members of the Subcommittee, thank you very much for the invitation to participate in today's hearing. I am going to focus my comments on crop insurance, given my former role as Chairman of the Board of Directors of the Federal Crop Insurance Corporation and given my current role as Advisor to National Crop Insurance Services. NCIS is a trade association that represents all 15 companies that sell crop insurance, and our business is provision of information, data, statistics and research.

The Subcommittee has heard a lot about crop insurance in the lead-up to the 2012 Farm Bill, and it is obvious why crop insurance is in the news and why producers want to protect the program in the 2012 Farm Bill. It has grown dramatically in importance over the last couple of decades.

To quantify that growth, in 2011, we had 84 percent of the 315 million acres in the United States that were planted, the principal crops. Eighty-four percent of that was enrolled in the crop insurance program, and that compares with only 12 percent back in 1981 when the modern program was born.

Coverage levels are up substantially. Actuarial performance is excellent and new products are steadily being introduced. This growth reflects Congressional objectives and actions. Incentives to private companies to sell and service policies have been crucial for expanding participation. Premium subsidy increases, new products, improved ratemaking, higher and more volatile commodity prices, education programs, public and private risk sharing have all contributed to the program growth.

Insurance is fundamental to managing risks across all areas of our economy. I think the popularity of crop insurance, the fact that farmers share in the cost of the program, the fact that companies share in the taxpayer risk of the program make crop insurance a rational policy choice to be the primary vehicle farmers use to manage production and price risks now and in the future.

However, there are challenges. One is the cost of the program. Congressional action to achieve high coverage to protect the farm infrastructure and to deter *ad hoc* disaster assistance is succeeding, and that success, and it is no surprise, comes with a higher Federal cost. But crop insurance cost should not be viewed in isolation of other programs. Crop insurance spending has been replacing farm program spending. The combined cost of farm programs and crop insurance is trending down and the farm bill is going to reduce those combined costs further.

Another challenge is risks that most crop insurance products do not cover such as multiple years of low prices or the uninsurable part of production such as the deductible part of a policy, and of course, it is these risks that have led to the proposals to supplement crop insurance with new farm revenue programs. Such supplemental farm programs would be free, and a free program can crowd out a program that farmers have to pay a cost for in the same way that *ad hoc* disaster assistance in early years crowded out crop insurance.

In thinking about this supplemental coverage issue, I think it is important to recognize that crop insurance coverage levels are steadily increasing. In 2011, over 70 percent of the acres in crop insurance were insured at 70 percent or higher coverage level. Consequently, supplemental programs need to be structured to avoid excessive coverage of losses and to minimize their interaction with crop insurance.

Finally, if crop insurance is to be the centerpiece of the farm safety net, the government, companies and farmers need to work together to continue improving and expanding the availability and the effectiveness of the portfolio of products.

The nature of crop insurance a decade from now is not possible to predict but the trends and characteristics discussed today strongly suggest crop insurance will have an increasing role in production agriculture and agricultural policy.

That completes my remarks, Mr. Chairman.

[The prepared statement of Dr. Collins follows:]

PREPARED STATEMENT OF HON. KEITH COLLINS, PH.D., ECONOMIC ADVISOR, NATIONAL CROP INSURANCE SERVICES; FORMER USDA CHIEF ECONOMIST, CENTREVILLE, VA

Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee, thank you for the invitation to appear at today's hearing to discuss farm programs and crop insurance as you continue the development of the 2012 Farm Bill.

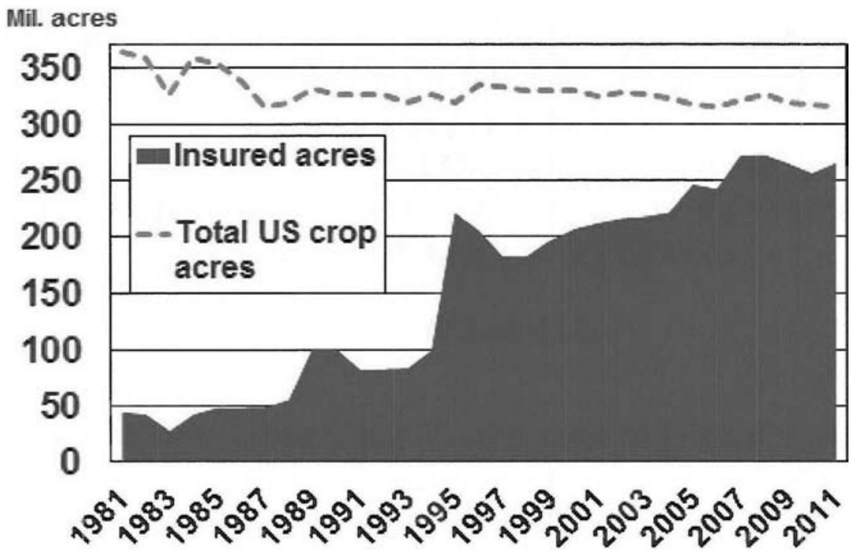
I served as USDA's Chief Economist from 1993 to the start of 2008. In that capacity I chaired the Board of Directors of the Federal Crop Insurance Corporation for 7 years. Today, I serve as an economic and policy advisor to National Crop Insurance Services. NCIS is a nonprofit organization representing all 15 companies that sell crop insurance. Its activities involve collection and management of information, analysis and reporting of data, research, and education. My comments reflect my views as an economist with some experience in market behavior, farm programs, and crop insurance.

Today, I will discuss the current state of crop insurance and its key features, discuss the adequacy of crop insurance to serve as the central part of the farm safety net, and provide my view of the challenges the Subcommittee faces in designing effective farm financial safeguards as part of the 2012 Farm Bill.

The Growth of Crop Insurance and the Features Driving Growth

The use of crop insurance by U.S. farmers has grown sharply, increasing from 45 million insured acres in 1981 to over 265 million in 2011 (*Figure 1*). Insured liability has increased even faster, rising from $6 billion in 1981 to more than $114 billion in 2011. More insured acreage, higher crop prices, and farmers buying higher coverage levels explain the sharp rise in liability. Several factors explain the strong growth in the use of crop insurance by farmers over time. Private sector delivery, which began with the Federal Crop Insurance Act of 1980, has provided strong incentives to sell and effectively service policies. Private sector compensation, subject to a cap, is tied to the value of premium sold, incentivizing companies and agents to bring crop insurance to producers. Increases in premium subsidies and government payment of insurance company delivery costs made crop insurance increasingly affordable over time, boosting participation and coverage levels.

Fig. 1. Acres Enrolled in Crop Insurance

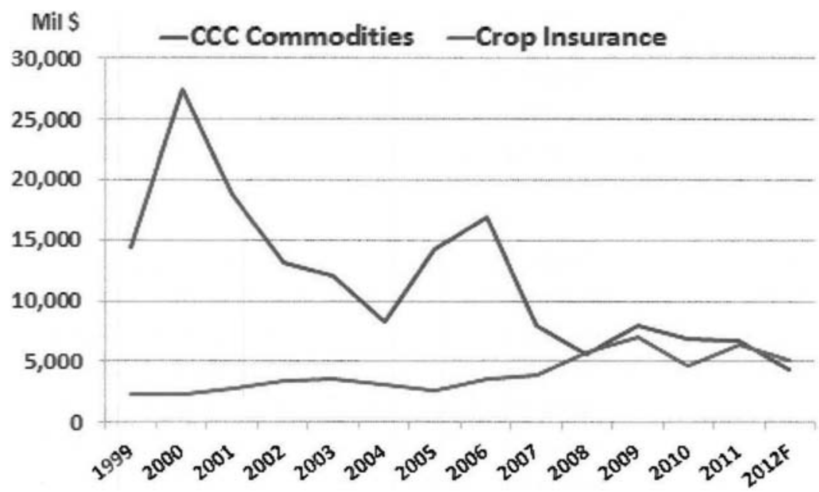


Sources: USDA/RMA Summary of Business; USDA/NASS Acreage.

Other factors also contributed to higher demand for crop insurance. The Federal Crop Insurance Reform Act of 1994 required producers to have crop insurance to be eligible for farm program benefits. While short lived, this requirement introduced many producers to crop insurance. Reductions in the level of protection provided by farm programs and requirements to have crop insurance in order to be eligible for the receipt of *ad hoc* disaster payments encouraged participation and higher coverage levels. An environment of higher and more volatile commodity prices has meant farmers have more to lose, a likely factor spurring coverage. Education efforts to acquaint producers with risk management strategies may have also increased demand. Program improvements have also attracted producer participation. These improvements, introduced especially during the late 1990's and later, included more appropriate premium rates for some crops; reduction of waste, fraud, and abuse; and new and better plans of insurance, such as revenue plans. Today, crop insurance is a risk-based program that does not make annual subsidy payments to farmers. When crop insurance does provide monetary benefits to farmers, the benefits are made available in the form of an indemnity payment that restores only a portion of an actual annual loss. Many farmers pay crop insurance premium costs for a number of years without receiving indemnity payments because they have not experienced an actual loss.

Meanwhile, farm programs have evolved from very market intervening programs that focused on offsetting low prices by using price supports, acreage controls, and price-based deficiency payments to programs that let market forces operate more fully, with producers shouldering greater responsibility to manage risks. This evolution has been facilitated by rising commodity prices. It has led to increased use of revenue concepts in government-delivered farm programs, such as the Average Crop Revenue Election (ACRE) and the Supplemental Revenue Assistance Payments (SURE) programs in the 2008 Farm Bill. While this evolution in farm programs reflects efforts to reduce the consequences of government intervention in markets and to reduce farm program spending, the shift also has been partly a consequence of policy decisions to improve and rely more on crop insurance as well as the demonstration by the crop insurance program that it could meet such a responsibility by delivering products that farmers value. This transition in programs is illustrated in *Figure 2,* which shows the trend in lower farm program spending and greater crop insurance spending. *An important observation is that the sum of farm program and crop insurance program spending has been trending down. While crop insurance outlays have grown and substituted for farm program spending, the net taxpayer obligation for the farm safety net has been declining.*

Fig. 2. Outlays on Crop Insurance and CCC Commodity Programs, *Fiscal Years*



Sources: CCC from 2012 President's Budget. Crop insurance, 1999–2009 from USDA/RMA; 2010–12 from CBO 2012 March Baseline.

The expanding role of crop insurance in the farm safety net signals several key features that farmers and policymakers find attractive. These include: the requirement that a producer has to consciously elect to manage risks, insurance plans that can be designed to fit individual farm risks, producers share in the program costs, and accountability that comes with cost sharing. In addition, the private sector delivers the program as part of a public-private partnership that involves risk sharing between the government and the private companies. This arrangement means competition among private companies to deliver the program, producer choice among companies and agents, greater accountability by companies to ensure program integrity, lower reinsurance losses by the government, and efficiency and quality in delivery service. Private delivery and the structure of the program also enable producer losses to be adjusted accurately and indemnities paid promptly. In addition, USDA has wide latitude to establish program provisions, including new product development, premium rate setting, and compliance. This flexibility enables the program to adjust to producer needs and address program parameters to reduce costs and inefficiencies without the need for Congressional action. Crop insurance also allows many producers to secure credit, as an insurance policy serves as collateral, and aids forward marketing by providing resources to meet delivery obligations in the event of a production loss. This access to credit may be particularly important for new and beginning farmers. *Insurance is the fundamental method for managing risk across personal and business activities. Given the above attributes, there are many compelling reasons to conclude that insurance should be the fundamental way to manage production, price, and income risk for farmers in the future.*

Crop Insurance as the Central Part of the Future Farm Safety Net

If crop insurance is to be the central part of the farm safety net, then a reasonable question is: does crop insurance serve all risks, all crops, and all regions well in a cost-effective way? With regard to risk, it is clear that farmers today face many risks that are addressed by farm programs and crop insurance only partly or not at all. The shocks that may disrupt a farm operation may come from many sources: the macroeconomy, natural disasters, person-made disasters, input availability and quality, trade policy, energy policy, climate policy, food policy, technology policy, and environmental policy. These shocks can affect production, quality, prices, costs, loss of markets, the environment, income, wealth, and health. While some have proposed modest expansions in what risks crop insurance can cover, crop insurance today is focused on protecting against the impacts of natural disasters on production and production quality and on output price declines.

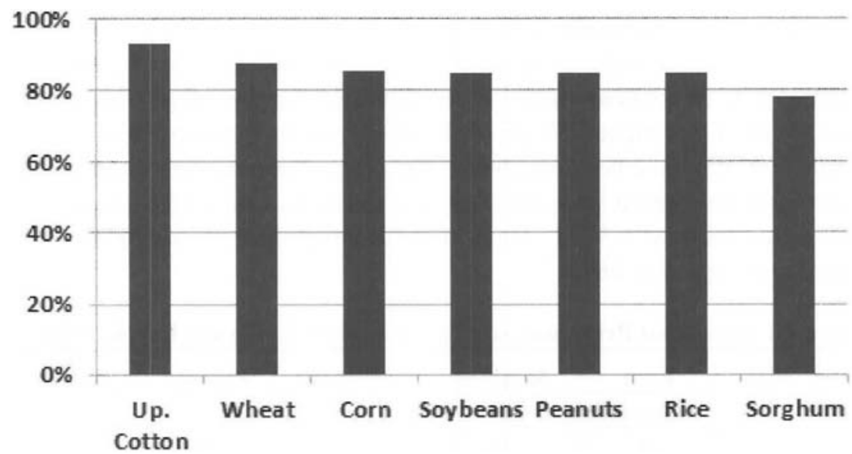
Price risk covered. The major field crops rely heavily on individual revenue insurance. The insurance price for most of these products that is used to establish the insurance guarantee is the price of a futures contract averaged during a period just before planting. The settlement price is the price of the same futures contract averaged during a harvest period. Thus, the price protection provided is for a drop in a futures price between planting and harvesting. Most crop insurance products do not provide protection for a price drop from an average of historical prices or from a fixed benchmark price (exceptions are AGR, AGR-Lite, and Actual Revenue History plans of insurance). *Crop insurance provides protection for the risk of a price decline within a crop year, not across crop years. If markets are in surplus and futures prices are low, the protection afforded by crop insurance will be low. The market is signaling supply contraction.*

To offset the income prospect of low prices, some have proposed using historical average prices or fixed prices to set the guarantee. The objective of the crop insurance program is to protect against the decline in the current value of an asset, so using a price to set the guarantee that exceeds the expected market price creates problems. If the expected harvest price is below the guaranteed price, an expected loss would be "built in" and adverse selection would result, unless the premium rate reflects the difference between the expected price and the average or fixed price. Building in an expected loss also creates the issue of who is responsible for covering that loss, if realized. *Historical average prices and fixed prices are more appropriately used in farm revenue programs that are directed at supporting income above market-based levels, rather than in crop insurance, which is directed at protecting assets at current market values.*

Production risk covered. An issue is whether something should be done for the uninsurable portion of production, or the deductible component of crop insurance. The deductible exists to prevent moral hazard—actions by the insured that increase the chance of loss. The deductible also serves to address the uncertainty about the relationship between underwriting standards and production outcomes, that is, the inability to accurately estimate appropriate premiums. Most major crops in most areas have an 85 percent maximum coverage level for individual policies and a 90 percent maximum coverage level for county-based policies. Some have suggested that crop insurance deductibles, combined with the 10 year Actual Production History yield, which lags trend yields, do not provide high enough coverage. The argument is that small losses, so-called "shallow losses," year after year may not trigger a crop insurance indemnity but may drive a farm to financial ruin. There is merit in this argument. However, the key question is: how much risk should producers bear and how much risk should taxpayers bear? Deductibles are common in most forms of insurance, such as health or automobile and are appropriate in crop insurance. *As long as the price guarantee is an expected market price, if insurance were to provide too high a level of coverage, the main risk is moral hazard. But if the price guarantee were to exceed the expected market price and coverage level is too high, such a program risks interfering with market price signals and distorting production.*

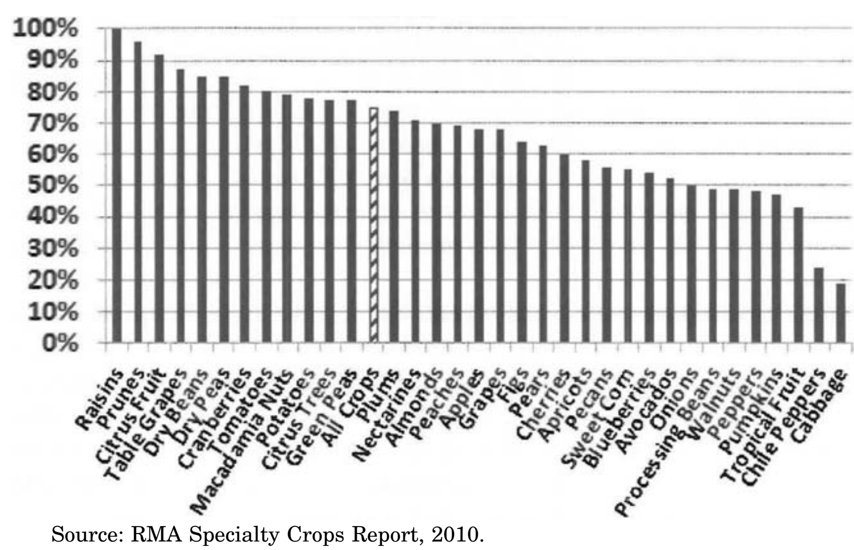
Crops/regions covered and coverage levels. Some have argued crop insurance does not work well for some crops and some regions, compared with others. There is truth in the claim, but the data suggest that crop insurance is working very well for much of the country and can be improved further. *Figure 1* shows that of the 315 million acres planted to principal crops in 2011, 84 percent, or over 265 million acres, were in the crop insurance program. Participation by crop does vary, but it is high for the major program crops and for many specialty crops. Since many crops are regional, data on participation by crop is suggestive of participation by crop and region. *Figure 3* shows the percentage of planted acres participating in the crop insurance program in 2011 by major crop, which ranges from 78 percent for sorghum to 93 percent for cotton. *Figure 4* shows the participation for insurable specialty crops during 2009, which ranges from less than 20 percent for cabbage to more than 80 percent for a number of crops. There have been substantial efforts made by the Risk Management Agency (RMA) and private interests to increase the number of crop insurance products and features to expand coverage. Since 2000, we count over 50 new product introductions. In 2012, there will be new products for popcorn, strawberries, tangerine trees, Texas citrus trees, camelina, pistachios, and olives.

Fig. 3. Share of Major Program Crop Acres. in Crop Insurance, 2011



Source: USDA/RMA Summary of Business.

Fig. 4. Share of Specialty Crop Acres in Crop Insurance, 2009



Source: RMA Specialty Crops Report, 2010.

While many crops show participating acres are at high levels, an issue is whether the acres are protected at low or high coverage levels. *Table 1* shows the share of acres and total premium at 75 percent or greater coverage levels for major program crops. The acreage share ranges from 16 percent for rice to 63 percent for corn. The premium share ranges from 23 percent for upland cotton to 72 percent for corn. There are many reasons for such differences. They range from the risks producers face or perceive they face; to the alternatives available to manage risks, such as irrigation, variety selection, and other practices; to the premium rates charged. In many cases, a producer opting for lower coverage is making a rational choice given costs and alternatives, and that choice does not represent a failure of the crop insurance program.

The issue of providing some protection for uninsured production is partly an issue of farmers choosing less than full insurance and partly an issue of coverage limited by the deductible and the APH yield. One observation is that over time producers are choosing to increase their coverage levels. In 1996, only 12 percent of the premium sold for buy-up coverage for all commodities was for policies with 75 percent or higher coverage. By 2002, that figure was 39 percent and by 20 11, it reached 57 percent. Higher premium subsidies and, recently, the use of enterprise units have been important factors in the coverage increases. For 2012, RMA has announced premium reductions for corn and soybeans and a pilot program that uses trend yields to adjust up a producer's APH. Both of these developments are likely to increase average coverage levels again in 2012.

Table 1. Share of Insured Acres and Premium at 75% or Higher Coverage Levels, 2011

Coverage	Wheat	Rice	Corn	Sorghum	Soybeans	Peanuts	Cotton
Percent of Insured Acres							
75–90%	29	16	63	18	60	18	17
Percent of Total Premium							
75–90%	36	38	72	25	70	30	23

Program costs. As crop insurance has grown in participation and coverage, the Federal cost of the program has increased. A major factor has been the increase in commodity prices, which raises the insured value of crops and increases the value of any quantity of production lost to natural disasters. There are several factors to consider when looking at crop insurance program costs. As noted earlier, the combined spending on crop insurance and farm programs has been trending down as crop insurance has taken on a greater role in protecting farm revenue, with farm programs taking a lesser role. The new farm bill will lower agricultural spending further and should do so by prioritizing programs. The crop insurance program was cut in the 2008 Farm Bill and in the 2011 Standard Reinsurance Agreement, which now means administrative and operating payments to companies are capped, agent commissions are capped, and company returns have been reduced. Premium rate reductions in 2012 should further reduce spending and company rates of return. Company rates of return in 2011 and expected for 2012 are well below those of recent years. Finally, Congressional baseline projections of crop insurance program costs have consistently been overestimated in recent years. Projections are highly uncertain and depend on market price projections. If prices turn out lower and yields are good, program costs could be substantially lower.

Recently, there has been some discussion of premium subsidy limits applied to producers. Such limits make some sense for payments that are made to enhance income, such as Direct Payments. Payment limits may make less sense for a program where producers share the cost and where receipt of the program benefits—the indemnities—require producers to incur losses. Crop insurance is structured to treat farmers equally regardless of size and value of commodities produced. Weather disasters do not happen in just some counties or on just small farms or large farms. They happen everywhere and anywhere. A consideration is that subsidy limits would affect farms differently, depending on the number of operators, use of share *versus* cash rent, value of crops produced, and risk of crops produced. With subsidy limits, large, lower risk farmers are likely to be those who choose not to participate in crop insurance. The result would be that the remaining pool of insured farmers would be higher risk, leading to higher loss ratios over time and increased premium rates for those that remain in the program.

Meeting the Challenge of a Farm Bill Safety Net

I will end my comments with a few thoughts on the design of the farm safety net. The prospect of eliminating the Direct Payment program frees up sufficient funding to meaningfully contribute to deficit reduction. If other programs are cut as well, there may be ample funding for new or expanded farm programs that could complement crop insurance. It is important to understand what would be the objectives of these new programs. Several observations about crop insurance and possible new farm programs include:

- **Crop Insurance should be the core risk management tool.** My statement today has identified many reasons why crop insurance is attractive, has grown, and is the prime candidate to be the central part of the farm safety net. Today's crop insurance program has fulfilled long-term Congressional goals for a program that has high participation, provides high coverage levels, reduces *ad hoc* assistance, functions efficiently and that farmers share in the cost. Design of amended or new farm safety net programs should start with the current crop insurance program as the basis and include making crop insurance even more responsive to producers' needs.
- **Private sector delivery should be maintained.** The benefits of private competition and efficiency have been proven in the delivery of crop insurance through the history of today's public-private partnership. Risks borne by crop insurance companies, incentivized sales and service, and compliance programs and penalties have resulted in high levels of service to producers and very low incidences of waste, fraud and abuse.
- **Government farm programs should aim to augment crop insurance not substitute for it.** Farm programs are free and providing a free good or service has the potential to crowd out one that has a cost. In the same way that *ad hoc* disaster programs crowded out crop insurance, a free farm program that replicates some or all of what crop insurance does is likely to displace crop insurance. Any supplemental program should focus on risks that crop insurance does not cover, such as multi-year depressed prices or uninsurable (as distinguished from uninsured) production. Supplemental programs that are based on area yields may reduce the interaction effect with individual crop insurance plans but may significantly crowd out county-based crop insurance plans, depending on how the supplemental plan is structured. The narrower the share of expected revenue that a supplemental program covers, the less would be the interaction effect with crop insurance. Supplemental programs that use payment reduction factors applied to payment acres may reduce the interaction effect with crop insurance. Ensuring that crop insurance indemnities are not part of the payment calculation for any supplemental revenue program would also reduce the interaction effect on crop insurance.
- **The portfolio of crop insurance products should be improved.** A policy goal should be to make crop insurance as widely and equitably available as possible for most commodities. To the extent possible and practical, the portfolio of insurance plans should be improved for small producers, socially disadvantaged producers, specialty crops, and other crops that may not be covered or have atypical or specific risks or lack transparent pricing.

Mr. Chairman, that completes my statement. Thank you for the invitation and I am pleased to respond to any questions.

The CHAIRMAN. Thank you, gentlemen.

I would like the record to reflect that the three of you got your opening statements in in less than 15 minutes. That is an impressive start to the hearing, and I appreciate that. We will now go on the 5 minute clock and I will start.

Dr. Outlaw, I will rehash some of your opening statement. In looking at the shallow loss program provided in the Senate bill *versus* the price-based countercyclical program that we developed last fall, which do you think has a better option for multi-year price declines and which would trigger more often. In your professional view, what do you think is the better safety net for production agriculture?

Dr. OUTLAW. Well, obviously that question is very complicated, but I look at it, as I said in my statement, when I work with farmers, my whole thing is trying to keep them in business so they get to try again like the Chairman mentioned when he was younger. I think that our research shows that the ARC plan would pay more often because it pays on shallower losses, and the PLC plan, the price loss coverage, is obviously going to pay when prices are below a target price. The most important part of that is reference price. The most important part is where you set the reference prices and if you do that accurately or fairly across commodities. There is no question in my mind that you can provide each commodity assistance, similar assistance with the PLC program.

The counter to that is, I don't believe you can provide every commodity a fair shake with the ARC program. It is not because it is designed wrong, it is because the way the benchmark prices are set. The government would be ensuring a loss for some commodities while others would be ensuring a profit, or near profit. So to me, it is just not fair.

The CHAIRMAN. Thank you, Dr. Outlaw.

Dr. Schnitkey, I don't want to belabor this too much, but in your opening statement you walked through an example on a break-even analysis for corn that corn breaks even at $4.10 a bushel and then the average, I guess the Olympic average for the past 5 years has been $4.64 a bushel, which appears to be a 54¢ profit or margin on corn. A 195 bushel per acre farm times 54¢ would be $105 per acre profit. And there are some folks who say that the cost of production is even lower so you would have a bigger number. But with those facts, some producers will be above. Where is the shallow loss in that bracket that you are talking about.

Dr. SCHNITKEY. Obviously, we have to make some assumptions here, but $4.10 is the cost of production and if we have something along the $4.50 price just for round numbers for a benchmark price, assuming that nothing happens with yields, a ten percent reduction in $4.50 would be 45¢. After that, as it is currently designed, ARC would begin to make payments but it wouldn't make payments on the entire loss for anything below $4.

The CHAIRMAN. Help me understand that word *loss* that you just used. Where in that 54¢ is the loss?

Dr. SCHNITKEY. Well, $4.50 minus 45¢, which would be $4.05, and let us say that the market price then is below that $4.05 price, that $4.15 below that was——

The CHAIRMAN. I clearly understand when the market price is below cost of production there is a loss, but in this example, there appears to be—and again, maybe we are belaboring this too much but I am a CPA and you got me jammed up.

Dr. SCHNITKEY. All right. So again, $4.10 cost of production, $4.50 benchmark price, minus 45¢ from that would be $4.05.

The CHAIRMAN. What is the 45¢?

Dr. SCHNITKEY. The 45¢ would necessarily be the fall given roughly where ARC is set at, the ten percent decline, so we would below $4.05, which is already below the cost of production. But even then, the losses between $4.05 and below that would be the payments from $4.05 to 10¢ to 20¢ below that currently would be compensated, if you are using ARC, something like 80 percent for cotton, or county, 65 percent for farm. Having said that, also, those prices will—those benchmark prices will obviously adjust over time to whatever the market conditions are at that time, and we have been fortunate in corn that the last couple years have been good.

The CHAIRMAN. All right. Mr. Boswell for 5 minutes.

Mr. BOSWELL. Thank you, Mr. Chairman.

Along that same line, Dr. Schnitkey, and if it is a little redundant, I apologize, but I just want to make sure we understand. How does the ARC program in the Senate Agriculture Reform, Food, and Jobs Act of 2012 create equitable protection across the regions? Would you comment about that? Then I have a follow-up.

Dr. SCHNITKEY. Equitable distribution of payments across a region from ARC, is that the question more or less? Again, this is according to Congressional Budget Office numbers. Payments on ARC would be roughly proportionate to the crop value, two to five percent. That obviously is different from the way payments are made now based on base acres and direct payment rates. So it would differ, and whether or not that is equitable or not is something for you all to decide. I can describe the impacts but it is your decision of whether that is equitable or not.

Mr. BOSWELL. Okay. Do you think that the cost savings from any of these potential revenue programs, do you think there are cost savings? And if you do, which revenue program would yield the greatest efficiency and cost savings and still provide assurance and sustainability to the producer?

Dr. SCHNITKEY. The CBO scores for the Senate markup bill, which isn't the same as the final bill passed, had the cost of the program at 62 percent of 2008 spending, so it would be a cost savings. Obviously, that is based on assumptions of what prices are going to do, and those could vary obviously. I would tend to agree with CBO that those cost estimates are below the 2008 Farm Bill.

You know, what program, it depends a lot on the specific design of the program, and it is difficult for me to guess. You could design a target price program with target prices that are very low and you wouldn't make any payments and you could design a target price program that has very high target prices and make large payments. So I would have to have a specific set of policies to answer that second question.

The CHAIRMAN. The gentleman yields back.

Mr. Lucas for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman.

Dr. Outlaw, how do the reference prices developed for the package last fall compare to the cost of production on the farms that your folks study?

Dr. OUTLAW. It is my understanding that those reference prices are very close. I provided the staff some of our cost information, and I know they used some of the USDA cost information as well, as well as about 25 years of previous target prices so that those relationships could try to maintain the same relationships. There is a lot of discussion, when you say the phrase *target price*, people always say that theirs is low relative to their other commodities. In developing those, I know they used some historical relationships to try to keep them approximately the same and then cost of production, to try to move those up when those historical relationships were not appropriate anymore.

Mr. LUCAS. Do you agree with those who say that these prices would drive planting decisions?

Dr. OUTLAW. No, and that is probably the one question I have gotten more often than any other question this farm bill is that one. It all goes back to, if you have a target price set, what I would call fairly, where there is not a profit guaranteed, and because of the mechanism of how those things get paid—they are paid on countercyclical payment acres—those yields are lower for most crops than their average yield would be. There is a payment fraction in there, they are not going to get that level of protection, they are going to get something less. And so you are already talking about setting it below the cost of production, and then they are going to get less than that. All it is, is the deep loss coverage that I think most of you are talking about. All it would provide is, when things go really bad, there is going to be a payment to help them stay in business. I don't think there is anything wrong with that.

Mr. LUCAS. Dr. Outlaw, I have said from the beginning that we have to craft policies that work for all commodities and all regions, and many have expressed concern that the Senate Agriculture Committee-passed bill shifts baseline from one commodity to another, from one region to another. In other words, the Senate bill picks winners and losers. Give me your thoughts on that statement.

Dr. OUTLAW. Well, you know——

Mr. LUCAS. Based on the analysis you have done so far, the information available.

Dr. OUTLAW. Based on our analysis, when you pay—most of the new programs that have been discussed would be paying on planted acres, and when you move to paying on planted acres, you are going to increase the amount of money paid to corn and soybean producers in this country, and so that will be moving that money that way. Each commodity ought to have an opportunity to stay in business if there is a loss, and the way the Senate plan is crafted right now, I can't say that they can.

Mr. LUCAS. Thank you.

Dr. Collins, I know much of the growth and the success of crop insurance came over the years during your tenure as Chief Economist at USDA, and thank you for that, for the success of the program. And you acknowledge that crop insurance is not yet working as it should for some crops and regions. Given our current budget constraints, the reality we deal with in the United States House, what do you think are the most significant things we should consider that would improve crop insurance for those crops in those regions that have in effect fallen behind?

Dr. COLLINS. Thank you, Mr. Lucas, for your acknowledgment. I appreciate that.

This issue about whether crop insurance works or not is a phrase you hear a lot in the discussion of supplemental programs. Usually that refers to the fact that either coverage is low or the coverage level is low in certain crops for certain regions of the country. I would just first say that that doesn't necessarily mean that crop insurance is not working and is not a problem because sometimes producers face risks that are not in a crop insurance policy, to be covered by a crop insurance policy. Also, producers have alternative ways to protect themselves and so it can be a rational choice to participate at a low level in crop insurance. You can look at some of the southern States—Arkansas, 80 percent of crop production areas irrigated. Yield is not the risk that it is in other states. And if you have protection such as we have just been discussing with target price protection, direct payment protection, so you have some price protection already and therefore you don't necessarily need to buy high levels of crop insurance coverage. So there is not necessarily a failure of crop insurance in those instances.

However, having said that, we can look at particular risks that aren't well covered by crop insurance. Rice has already been mentioned by Mr. Peterson where we have the lodging issue, we have concern over input costs. They are working on a lodging optional endorsement, a margin product. That is a difficult product to develop, I know from my own work in cost of production insurance, but I have hope that that will happen and that will help. Peanut producers want a revenue product, and they have already started themselves on a path toward achieving a revenue product, so I think that will help participation. Specialty crops are another matter altogether because they represent small acreages. Sometimes pricing is not transparent. There is a lot of cultural practice issues that making underwriting standards difficult.

And so there is work that probably still needs to be done in that area. I think the 508(h) approval process and RMA's ability to produce products is the right way to go. I think we have a good product development program right now. We have seven new products, for example, coming online in 2012, and so I don't think that Congress needs to specify lots of new products that need to be developed by the Risk Management Agency. I think that the existing process for product development is working and continues to work, but it is a slow process.

Mr. LUCAS. So you believe inevitably it is possible to overcome these real challenges but there are real challenges at the present time under a number of scenarios?

Dr. COLLINS. There are real challenges, and the record has shown they have been overcome over time. You can even look at specialty crops where we have over 70 percent of the acreage of specialty crops participating in crop insurance. So crop insurance has been a success in new product development but more work needs to be done.

Mr. LUCAS. Thank you, Dr. Collins.

Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. Thank you, Mr. Chairman.

Mr. Peterson for 5 minutes.

Mr. PETERSON. Thank you, Mr. Chairman.

I don't know who wants to answer this, but say the way the Senate bill is structured with this revenue the way they—I am not sure I understand it completely—no countercyclical payments. So say that corn goes to $3 and it stays at $3 for 3, 4 years. The revenue thing will protect you against that decline somewhat but eventually that is going to go down to $3 too. So you are going to have a situation where you have crop insurance where you are not able to protect your price where you need to and then your revenue gets down to the same level. Am I right about that? What happens at that point? We are going to plant for the marketplace but, corn kind of drives the price for soybeans and wheat and so forth. I mean, if corn goes down, it is going to be all the way across the board and I don't see people necessarily shifting crops from one loss to another. They are going to plant based on what is best for the farm.

Dr. SCHNITKEY. No, you are absolutely right. If something like the program passed by the Senate came into being and we have $4.50 price for corn now and we have a series of years of $3, benchmark revenue and benchmark price would go down to $3 and the ARC would make less payments as we move through time.

And you are also right that other crops, that those crops are correlated, and soybeans and wheat and others would also be going down at the same time. ARC, the purpose of ARC in that case would be to give producers the opportunity to make decisions on their farm to react to that marketplace. There would likely be leads and lags in cost and production but they would also likely decline as well as cash rents would also come down if we saw that situation. So it would be a buffer for that period, and yes——

Mr. PETERSON. But how much of a buffer is it? I was reading it is only 6 percent or 7½ percent or something. It is not significant. Why wouldn't you buy this enterprise insurance that has 80 percent coverage and buy that at 80 percent subsidy and buy that at 85 percent? Why wouldn't you do that?

Dr. SCHNITKEY. The point is, you probably would. You probably would do both. You would continue in crop insurance and also be in a revenue base.

Mr. PETERSON. Yes, but if you have a revenue that is covering between 78 and 88 or whatever the—I don't know what the number is—but the guys that are buying 85 percent are going to go to 75, if they have that other coverage that is going to be free. I mean, am I wrong about that? I don't know.

Dr. SCHNITKEY. There could potentially be some reduction in crop insurance coverage levels, although in my personal opinion, it would be minimal because of the differences in what is being protected. Again, most of the revenue programs that I have seen protect a very narrow band.

Mr. PETERSON. Yes, and so it doesn't—I just don't see where if these prices collapse where this is going to help you a heck of a lot. You are going to be okay the year it collapses, probably, but the next year I just think you have a big problem. We are going to have people camped out out here and we are not going to be able to do anything about it.

Dr. SCHNITKEY. Again, yes, the prices would come down, although in the Senate program, it is a 5 year Olympic average so the first year——

Mr. PETERSON. Yes, I mean, it buffers you somewhat.

Dr. Collins, before my time runs out, I have been meaning to get Bill Murphy up here so I probably shouldn't ask you this, but we put some money in the 2008 bill to try to move people to enterprise units, so that is how the subsidy got up to 80 percent, right? I mean, they use that extra money to encourage people to move to enterprise units, and I assume what was going on, they were trying to get the farmers to take more of the risk themselves by moving from field to field to a broader coverage. That appears to be working because we have a lot of people shifting, it seems like, to that. Am I right about that?

Dr. COLLINS. That has worked big time. Enterprise unit subsidy is 80 percent, I think for 75 percent coverage. At 85 percent coverage, it is only 53 percent.

Mr. PETERSON. Oh, is it?

Dr. COLLINS. Yes, but that is a lot higher than basic and optional units. Basic and optional units, it is 38 percent. So it jumps from 38 percent to 53 percent at the highest levels of coverage. So you get a higher subsidy. You also get a second effect because producers take on more of the risk because they have a bigger area that is being insured. There is an opportunity for some diversification so the premium rate is lower. So you get a double effect when you go to enterprise units, and in the late 2000s, we were running almost no enterprise units in corn, and by the second year after this 2008 Farm Bill provision was implemented, we had something like 400,000 enterprise units in the United States. So there has been a big shift to enterprise units and it has made—it has helped coverage levels. This whole question about supplemental programs filling the gap that crop insurance might not be covering, most of our discussions with agents, they have told us that people that have shifted to enterprise units have increased their coverage levels by about five percent, and so you see that coverage level increasing as well. So crop insurance is doing a better job than it had been, which is part of this shallow loss issue.

Mr. PETERSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Peterson.

The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. I appreciate the Member's understanding.

With that, I recognize Mr. King for 5 minutes.

Mr. KING. I thank you, Mr. Chairman, and I note that I meet both those qualifications this morning unusually, and I appreciate the testimony of the witnesses.

I would go first to Dr. Schnitkey. As you discussed the 5 year Olympic average, is there some average or some basis within ARC that you would recommend other than a 5 year Olympic average? How do you think that works, and is there something that you would suggest that you might prefer?

Dr. SCHNITKEY. Picking out the length of the period is always a problematic one, but a 5 year average is perfectly acceptable, particularly when you throw out the high and the low.

Mr. KING. And that is my reaction towards it as well. But before I turn to Dr. Outlaw for his comments, his testimony points out that there are a number of commodities that can almost perhaps lock in a profit, and that was listed as corn, soybeans, wheat and grain sorghum. Are there any suggestions that you might make for some of the other crops?

Dr. SCHNITKEY. One, I am not sure that I would necessarily agree with those lock-in profits because costs also have risen dramatically on those farms.

You know, the beauty of using market prices and those benchmarks is it does react to the market. If you are concerned that those market prices are below what you want, you would have to do something like a reference price within that or a target price. Obviously that brings up a whole lot of other issues.

Mr. KING. But what if Mr. Peterson's scenario of grain prices dropping down to, say, $3 for corn for a 5 year period of time, what else gets adjusted in this, I mean, with regard to say, input costs? What kind of reverberations would take place through the balance of the input costs?

Dr. SCHNITKEY. One I would expect if we are looking at commodity prices to be declining, you would also see energy prices declining so those energy-related costs would be coming down, in particular, fertilizer, and I would also be expecting cash rents and other items to be coming down as well.

Mr. KING. Probably not seed corn?

Dr. SCHNITKEY. Probably not.

Mr. KING. Dr. Outlaw, what would you have to say to illuminate this subject matter and flesh out your point here that some of these commodities could nearly lock in a profit? How do you view that scenario of Mr. Peterson's of $3 corn for 5 years, and do you have a recommendation on 5 year Olympic average that is proposed in ARC? See, if we stick within the concept of ARC, how would you overhaul that to meet your qualifications?

Dr. OUTLAW. Well, first, I must have done a really poor job describing because the scenario he asked about was exactly our low-price scenario, which favored the House program on all but one of our farms.

What Gary mentioned not agreeing with, when I did this, and I said nearly lock in a profit, if you look at—I hate to single out crops but if you look at the soybean graph specifically, there is a substantial margin there, and even taking into consideration the deductible, there would be a potential to come really close to locking in a profit. I only bring this up not that I have anything against them, but I only bring this up to say you cannot do that for every other commodity. So to me, there is a question of equitability as you look across this.

And to answer your question, I said it in testimony and I will say it again, the only way that I can see—you can't do a 5 year Olympic average for rice and get them to where they are protecting a profit. There is no way to do that. The prices are too low. So the next question is, how do you augment that, and that is with some sort of reference price put in that formula.

Mr. KING. Okay. Thank you.

Dr. Collins, as we discuss some of the decisions that drive planting decisions, it is a given here that direct payments will be gone, but a number of these things that go into driving pricing decisions, one would be the direct payments. I would ask you to comment on that. And then if you could comment on the return on investment for crop insurance premiums, which states come closest to meeting a one-to-one ratio and what the standards are on that and how that ratio might drive planting decisions?

Dr. COLLINS. Mr. King, there has been a lot of economic research on direct payments and to what extent direct payments affect planting decisions, and most of that research shows that it is minimally influencing planting decisions. There is some minor wealth effect that comes from direct payments, but aside from the fruits and vegetables and wild rice issue, they are fundamentally decoupled from planting decisions. That is why we notify the WTO that they are green box payments and so they are not production distorting. One of the benefits of direct payments has been lost in the big debate about direct payments, probably the primary benefit. And I forgot the second half.

Mr. KING. The crop insurance premium.

Dr. COLLINS. Yes. The issue here is the loss ratio. There are two loss ratios. There is indemnities divided by the gross premium, which is what normally reported. The Risk Management Agency has by law a target of 1.0. That is, the total premium has to equal total indemnities. That is how they set rates. There is a second loss ratio. That is the indemnity divided by what the farmer actually pays, and sometimes that is referred to as the investment return in crop insurance. I don't like that concept personally. I don't think you buy crop insurance for an investment. I think you buy it for protection and risk management. You should buy it regardless of what that ratio is. Actually, I don't think that ratio has a big effect on planting. It has some because it is reducing risk, and anything that reduces risk can encourage investment, encourage area expansion. The body of work, and there has been—I have looked at probably at least ten articles on this question. The body of work shows that they are pretty small effects from crop insurance.

Mr. KING. I am going to say thank you there. I ran past my time.

Thank you, Mr. Chairman. I appreciate it.

The CHAIRMAN. Thank you, Mr. King.

Congressman Tim Walz, for 5 minutes.

Mr. WALZ. Thank you, Mr. Chairman, and thank you to the witnesses for helping us understand this.

I would have to say, I really appreciate the questions, the complexity of this issue. I am very proud of the work we did on the 2008 Farm Bill. I think again we can run the numbers and we can get the empirical data but I can tell you anecdotally, farm country is doing pretty well. The implement dealers are stocked. The cars and trucks are selling. We see our small communities flourishing and folks are there, and I certainly don't put all that credit on the farm bill we showed a proper balance for the most part, and that is why this issue is really important, and each of you mentioned very clearly, I do think we have to be careful. We are trying to be all things to all people, which we should with all the different commodities, the vast diversity of commodities and geography and other things in this country make this is a challenge.

So I am going to go one step further into the weeds and get even a narrower focus of picking out a group here because it is an issue I am personally interested in but it matters in the long run, and that is the aging population of our farmers. We are trying to get new folks on the land, and obviously these programs are going to have an impact whether those new farmers and ranchers have the opportunity to succeed. I want to draw on your expertise, how these programs or how do we structure this to hit these folks that don't have a production history, are early in on this. I know that the Senate side, they looked at the ten percent premium discount. I want to know, is that the right way to go, in your opinion, or is there a way looking specifically at crop insurance that we can structure it in a way to compensate a bit for these new farmers. I know that is pretty broad in terms of a question and very narrow in focus, but it is critical.

Dr. COLLINS. Congressman, I agree with you. I think it is critical as well. In fact, the crop insurance companies meet regularly, quarterly now, with the Under Secretary for Farm and Foreign Agricultural Services. At the first such meeting, he threw that out as a challenge to the crop insurance companies: what can we do to promote insurance coverage for new and beginning farms. We haven't answered that question yet. But you referred to the Senate provision, which would increase the premium subsidy for new and beginning farms. It would also increase the T-yield, that is, the yield that gets assigned when then they don't have a production history, and that would be the yield that they can insure for. It would seem to me those are two positive things.

I don't have a better suggestion at the moment. I think crop insurance is pretty critical for new and beginning farmers. Many of them have debt. They need to take on loans to get equipment, even buy land, and crop insurance is indispensable for them to access the credit. And so if we can make crop insurance more affordable for new and beginning farmers, that seems like a reasonable strategy.

Dr. SCHNITKEY. I would also concur with you that the beginning farmer issue particularly related to APH is a real one. Fortunately, there has been, at least in Illinois, more younger people in the recent years becoming more involved in the farming operation. What we have been doing or suggesting in those cases where they don't have an APH and would have to rely on T-yields is to into something like GRIP, which isn't the optimal but it is a product that is available now within the Midwest states for corn and soybeans.

Dr. OUTLAW. I would agree with the previous two answers. I guess I would just throw out there that there is no question from working with beginning producers now that make no mistake, their lenders require them to buy crop insurance. Anything we can do to increase the protection that that forced purchase of insurance, not that they wouldn't do it anyway, but some of them might not buy at certain levels. Anything we can do to make the yield higher for those beginning producers is probably a good thing.

Mr. WALZ. Thank you. I appreciate that.

I yield back, Mr. Chairman.

The CHAIRMAN. Thank you. I appreciate it.

Austin Scott for 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman, and a lot of my questions have been asked already, but Dr. Collins, you talked about loss ratios, and I majored in risk management at the University of Georgia, which I might add, is the finest risk management school in the country. A couple of quick questions. The numbers I have seen indicate the overall loss ratio of the crop insurance program was somewhere between 78 and 80 percent over the course of about 10 years. Is that consistent with the numbers that you have seen?

Dr. COLLINS. That is a number that would be in my head, yes.

Mr. AUSTIN SCOTT of Georgia. Is there a significant difference in the loss ratios of irrigated *versus* non-irrigated cropland?

Dr. COLLINS. I wish I knew the answer to that off the top of my head. My guess would be that irrigated cropland would have a lower loss ratio.

Mr. AUSTIN SCOTT of Georgia. I would think that as well. And I guess my question then is, is a higher premium charged for non-irrigated land since that probably has a higher loss ratio?

Dr. COLLINS. Well, this issue of irrigated *versus* non-irrigated does exist. You can specify by practice under a lot of insurance policies irrigated *versus* non-irrigated and get quoted separate yields, which should reflect the loss experience of irrigated *versus* non-irrigated. However, we also have situations where a producer buys insurance and there is not the ability to separate out irrigated *versus* non-irrigated. In that case, then you are sort of pooling the experience of irrigated and non-irrigated under the one unit that is insured and so the premium rate might be high for part of it, it might be low for part of it. That is one of the issues, separation of irrigated *versus* non-irrigated has come up in this farm bill, and that is something that the Senate proposed, separating irrigated and non-irrigated for enterprise units.

Mr. AUSTIN SCOTT of Georgia. I guess, Mr. Chairman, if I may, as we go forward with this, there is, coming from the South and the ag belt, if it is not broken, don't fix it. I just want to make sure that as we move forward that we fix the things that aren't working but not at the expense of what is working. If I walk in my ASC office, I am pretty confident that I can ask the ladies and the men who work there who they thought was going to have a claim, and they would get it pretty accurate. I mean, there is some consistency with who files some claims. The ag bill, we should not drive the planting decisions and we should make sure that we are protecting the good farmers and making sure that they are able to move forward through the bad years.

I would like each of the gentlemen to comment on one thing. You have all pretty much testified that you don't believe that this will drive the planting decisions. It might drive the banks on their lending decisions and what they are willing to lend the money to the farmer to plant, and that in my mind—and certainly you are the experts and I respect that, but that in my mind might drive what the banks are willing to lend on, what the farmers can and can't plant. Would each of you speak to that briefly?

Dr. COLLINS. I would agree with that. That would not be a direct effect. That wouldn't be something where the producer is looking at the net returns of crop A *versus* crop B. That would be an overall effect on their access to capital and, for example, their investment position, which would affect production and yield over time. That is a way in which taking away the direct payments could work. That could affect the capital position of the business over time. That could affect the credit position of the business over time. I think your logic is correct. I think credit could be affected. But I can't tell you to what extent at this point.

Mr. AUSTIN SCOTT of Georgia. We have about 30 seconds. Could each of you speak briefly on that?

Dr. SCHNITKEY. I concur with Dr. Collins.

Dr. OUTLAW. That is the number one issue as we travel around the country with our representative farms, whether it has been Georgia or Iowa, it doesn't matter where. Some producers are self-financed and a number of them have to rely on lenders, and to the extent the lender can't understand a program, it is too complicated for them like the ACRE program was in this last farm bill, they might be defaulting back for something else. So I do think that the lenders are very critical to moving forward and hopefully they will find that whatever you all do is bankable for themselves.

Mr. AUSTIN SCOTT of Georgia. Mr. Chairman, my time has expired.

The CHAIRMAN. The gentleman's time has expired, and it does fit with one of our five criteria that I set out, that whatever we do, it needs to be bankable.

Mr. Kissell for 5 minutes.

Mr. KISSELL. Thank you, Mr. Chairman. Thank you, gentlemen, for being here.

If there is one common theme that I have heard in the discussions for the new farm bill, it is that we must have that safety net. And following up a little bit on the general course of conversation that we have heard today, and discussions about the fairness, not trying to make winners and losers. There are a lot of factors that we have talked about today in terms of the crops, the regions, the irrigated, non-irrigated, things like this. You gentlemen are from different parts of the country—Texas, Virginia, Illinois. From what you are hearing and what you see with the combination of all the factors we have talked about, is there any one section of the country—because one of the things we see on the Committee sometimes is the interest of the Midwest *versus* the South *versus* California, whatever. But when you consider all the combinations of crops, weather, everything else, is there one section of the country that we as a Committee might be hearing from hey, this thing is really horrible for us? For whatever reason, the combinations that you would think this is problematic for a particular area of the country.

Dr. SCHNITKEY. Again, that does depend on what the final bill is, but just looking at what the Senate passed, it moved from base acres to planted acres so movement—any crop or region that lost base acres will be relatively more disadvantaged by a program that moves from base to planted acres. Then you would have to look at what the projected relative payments are on the crops and you could look at those regional sorts of analysis. I don't have those numbers in the top of my head. Overall, corn, as was mentioned before, planted acres of corn and soybeans have increased while wheat and other crops have declined. Having said that, that would likely mean that the Midwest where corn and soybeans are grown would have more acres. Having said that, corn and soybeans have spread out over the Great Plains and other areas, so it is not altogether clear to me what happens.

Dr. COLLINS. If I can comment on this, I do have a figure in my head and it is the percent that direct payments represent of recent average market prices. For corn, it is roughly five percent. For rice, it is over 15 percent. And what is going on in this farm bill is a redistribution of government benefits. With the elimination of direct payments, there is going to be a redistribution depending on what mechanism is in place. If it is market prices and planted acres, that makes a big difference for crops that get a lot of their benefits out of direct payments which were based on prices a long time ago and based on base acreages which were calculated a long time ago.

So if we are going to transition away from those concepts to a new concept, there is going to involve some redistribution and it looks to me like the biggest redistribution comes from where direct payments represent the highest proportion of income for the commodity.

Mr. KISSELL. So any regional situations really goes back to the crops.

Dr. COLLINS. Crops. That is what I would say, yes.

Mr. KISSELL. And we talked about the winners and losers there, so if there is something that we need to really look for in our home regions is talk to our folks on the particular crops and try to see if we can balance this thing out a little bit better if this is the way coming from the Senate that we see.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields back.

Congressman Tim Huelskamp for 5 minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

Looking here at the CBO March baseline prices and comments from each of you, how confident are you all on each of those projections? Do you have a confidence level with those that you can share with the Committee?

Dr. OUTLAW. You know very well that we work very closely with our colleagues at the University of Missouri that do the long-term projections as well, and all I can say is, these people spend every waking moment trying to get it right, whether it is CBO or FAPRI, and they do the best there is. So I don't know that they are right and probably never have been right.

Mr. HUELSKAMP. So how right do you think they are? I understand that there is uncertainty here. I am just curious about your expert opinion.

Dr. OUTLAW. If you were to tell me what was going to happen with ethanol policy going forward, I could probably be more accurate about that.

Mr. HUELSKAMP. So you have——

Dr. OUTLAW. If the ethanol policy stays the same, then I don't have any reason to believe right now that corn prices are going to dive, but if something were to change there, in my opinion, there might be some changes with those prices.

Mr. HUELSKAMP. What happens with the wheat price, for example, though, that doesn't work very well and obviously in that environment and does not have an impact, a renewable mandate?

Dr. OUTLAW. I didn't understand the question.

Mr. HUELSKAMP. The price of wheat obviously is impacted indirectly by the mandate on the other crops.

Dr. OUTLAW. Absolutely.

Mr. HUELSKAMP. My question is, how confident are you on the wheat price projection?

Dr. OUTLAW. About like all the rest of them. You have strong feelings that those trends could happen unless something major changes.

Mr. HUELSKAMP. Dr. Schnitkey?

Dr. SCHNITKEY. If I had to peg a long-run price, I would agree with what is published by USDA and CBO. I believe they do a very good job at predicting things that are difficult to predict, and as Dr.

Outlaw mentioned, if something does change, and you can list a whole host of things, prices will vary from those.

Dr. COLLINS. I agree with that. I used to run the forecasting program at USDA, and what you have is a contingent projection. It is based on a whole bunch of assumptions. One of the advances in price forecasting is that some of the groups that do it like Food and Agricultural Policy Research Institute, they put confidence intervals around it. They will tell you the probability of the price being below $4 or above $6.

You mentioned wheat in particular. The CBO 10 year projection in their current baseline for wheat prices, the 10 year average is $5.94 a bushel. You ask me whether I think that is going to be the average price or not, I will tell you no, it is not, but I don't know whether it is going to be higher or it is going to be lower than that.

Mr. HUELSKAMP. Five years ago, what was the prediction for the price today?

Dr. COLLINS. Probably lower. That would be my guess.

Mr. HUELSKAMP. How much lower, Dr. Collins?

Dr. COLLINS. I don't know off the top of my head. I should know but I don't, but probably lower. I would say wheat does face different challenges. It certainly benefits from something like ethanol because as land goes into corn and soybeans, it comes out of wheat, but we are also reducing the size of the Conservation Reserve Program. There is probably more wheat land that is going to come into production out of the smaller CRP that we have seen. Wheat of course has a different global market competition environment than corn does where we are the dominant exporter in the world. Wheat has a lot of competitors in the world so it is very difficult to forecast what will happen with wheat.

Mr. HUELSKAMP. And that is one of the other concerns I have, and maybe, Dr. Outlaw, if I could ask you and the other folks to provide for the Committee the cost of production for each of these other commodities for our worldwide competitors, how close we are to those. That has not been part of this discussion at all, what is happening outside of the United States in terms of our ability to compete. Do you have those figures, or each one of you sometime can provide that later to the Committee?

Dr. OUTLAW. We would have to provide them for you, but in essence—well, hopefully Keith knows the answers off the top of his head. I sure don't.

[The information referred to is located on p. 2305.]

Mr. HUELSKAMP. I am not expecting off the top of your head. I am just wondering if you can provide those to us.

And then in follow-up, Dr. Schnitkey, the price of corn as it goes down, some of the inputs would decrease as well. I am wondering if you can provide that information for the Committee as well that you answered in an earlier question if you would, please. You do have those?

Dr. SCHNITKEY. I don't have those in front of me.

Mr. HUELSKAMP. But you can provide those to us? Thank you.

And the last one, the bigger question for Dr. Collins, we are talking about risk management. There is obviously an entire marketplace for price risk management in the private sector. What is happening there, the impact, the better crop insurance products, are folks less likely to be using the private sector, the commodity markets and the future markets for that type of risk management outside the government control?

Dr. COLLINS. I have not seen any data on that but I really don't think that is a problem. I will give you an example. When we started livestock price insurance products, and I was one of the people that made the decision to do that at USDA, I was very worried that that was going to cause lower futures and options purchases on the Chicago Mercantile Exchange. Well, actually the officials from the CME came to see me and they said we want you to go ahead with that product, we want you to offer price insurance, if anything, we think it might help us over time, it might help us because crop insurance companies or re-insurance companies would buy products on the exchange. So a lot of the products on the exchange may not be coming from farmers but farmers are forward contracting more and more because of crop insurance. The people they forward contract with are operating on the exchanges to use futures and options.

Mr. HUELSKAMP. Thank you.

The CHAIRMAN. Mr. Courtney for 5 minutes.

Mr. COURTNEY. Thank you, Mr. Chairman.

I just have a quick question to follow up. Dr. Outlaw, you mentioned that ethanol policy changes could have an impact on corn prices. Well, there was one change that just happened in January when the tax credit expired. I was wondering if you could give us a little more detail about, first, did that really change much of anything; and second, what policies would you identify or specify that might have an impact?

Dr. OUTLAW. Yes. There has been quite a bit of research done on this issue, and basically most people felt that the expiration of the VTEC was not going to have a big impact on the markets. It is the mandate that has the driving impact. If something happens to the mandate or we—and again, I use ethanol as an example because everyone is aware of it but there could be trade issues we would have within a foreign country that could have just as big of effects. But those are some of the things that I think would change the picture substantially.

Mr. COURTNEY. So the analysis or study that has been done that you mentioned, I mean, have they actually kind of quantified what the impact of repealing the mandate would be?

Dr. OUTLAW. Most of that work actually has, well, a lot of it has come out of Iowa State and maybe a couple of other places, and they have quantified it. I could get those numbers for you but I don't them off the top of my head. There are some pretty recent articles on that.

[The information referred to is located on p. 2305.]

Mr. COURTNEY. Thank you. I yield back.

The CHAIRMAN. Thank you, Mr. Courtney.

Mrs. Hartzler for 5 minutes.

Mrs. HARTZLER. Thank you, Mr. Chairman.

Dr. Collins, I was interested in your testimony in that you said that the free programs to supplement the crop insurance can drive out the crop insurance and ultimately increase overall cost. I was wondering if you could expound on that.

Dr. COLLINS. Congresswoman, what I was referring to was that when you design a program to supplement crop insurance, if it looks like crop insurance, if it functions like crop insurance and it is free, then farmers are going to choose that program, depending on other factors as well. This is a challenge that the Senate had, for example, in constructing their ARC program. They had many interests there that wanted a program that would cover 70 to 90 percent of expected revenue on an individual farm basis. Crop insurance covers individual farms. Crop insurance covers up to 85 percent. So those kinds of proposals which came from some groups had the potential to crowd out crop insurance. I think the Senate did a good job in trying to minimize those effects. They shrunk that coverage band down to 79 to 89 percent. They made producers have a copay like in health insurance, the so-called 65 and 80 percent payment factor. That functions like a copay in health insurance. There is a payment limit which is pretty stringent, $50,000 and new actively engaged requirements. So there are a lot of reasons why even though that program is out there, producers are going to still buy crop insurance.

But there still would be some reduction at the highest levels of coverage, and I believe that is where CBO looked when they scored this ARC proposal. Mr. Conaway, at the outset, mentioned a savings of $2.4 billion. That comes from participation effects in crop insurance due to that program. So that is what I was referring to. There is that risk when you design a supplemental program that walks and talks like crop insurance, and my urging to the Subcommittee is to try to do as much as possible to—if you go that route, do as much as possible to mitigate those interaction effects.

Mrs. HARTZLER. That makes a lot of sense.

Some have expressed that shallow loss programs or proposals either guarantee a profit, which you have all addressed, you maybe disagree that that is the case. Some say that it takes out the risk of farming, implying that you are going to have farmers perhaps take on more land than they should or make some business decisions that actually aren't wise that otherwise they wouldn't make. They will put themselves in a precarious position down the road if something were to happen. What do you think are the consequences of taking the risk out of farming, and do you think the proposals that are discussed would do that in fact?

Dr. COLLINS. I don't think the proposals generally take all the risk out of farming. They are reducing some of the risk in farming. As you pointed out, there are some serious adverse consequences to taking out too much risk in farming. You encourage risk-taking behavior. You encourage over-investment, the possibility of surplus production and chronically lower prices and so you want to avoid that. This is a difficult thing, this whole target price discussion that I listen to as to whether they will distort or not distort production. You know, that is a tough issue. Target prices as they exist today are essentially, "decoupled." They don't influence production because they are paid on base acres and they are paid on a fixed yield, so they have little impact on the production decision. If you recouple them, if you break those decoupled links and you set target prices high, then you have a chance of taking too much risk out of production. So if you move in that direction of breaking the base acres and breaking the countercyclical yields and go to target prices, you need to make sure that you don't set them too high.

Mrs. HARTZLER. Exactly. Would either one of you like to comment on that as well? Just quickly. I have 16 seconds.

Dr. OUTLAW. In my testimony, I mentioned if they are set below the cost of production, which is what I said, I think that wouldn't be a problem.

Mrs. HARTZLER. Great. Thank you very much. Yield back.

The CHAIRMAN. The gentlelady yields back.

Congressman David Scott for 5 minutes.

Mr. DAVID SCOTT of Georgia. Mr. Chairman, I will just yield my time and speed along so we can get to the next panel, and I will be first in line to ask questions then, if you don't mind.

The CHAIRMAN. All right. Mr. Scott, thank you.

One real quick one. Dr. Collins, to kind of follow up on what Mrs. Hartzler was talking about, would a crop insurance-administered product in your view do a better job of covering shallow losses?

Dr. COLLINS. You could design a crop insurance-administered product to cover shallow losses. The issue is that crop insurance, using the standards of insurability requires certain things. You have to have underwriting standards. You have to have actuarial soundness, which means there is a premium rate that has to be paid. So a crop insurance product if it went through the development process with the goal of providing, "shallow loss protection," would probably look different than anything we are looking at today. Do I think crop insurance companies could deliver that? Yes, I have great faith in the ability of agents and companies to sell and service the product.

But if I look at the products that are on the table, crop insurance products use an expected market price. You are ensuring the current value of the asset, not the average value over the last 5 years, not the benchmark value of the asset, the current value of the asset. So these programs that have benchmark prices in them and that cover about 85 percent, there is a reason policies don't go beyond 85 percent. It is a moral hazard. So to design a crop insurance—I don't think you can have a crop insurance product that would look like ACR, for example, because of the price and because it is covering up to 89 percent, which raises questions about moral hazard. I think they have tried to reduce that effect with the coshare, the copayment, but to answer your question in one sentence, it could be done but it would look like a different product.

The CHAIRMAN. Thank you.

Gentlemen, great panel today. Thank you so very much. I appreciate each of you being here.

We will now turn to the second panel, and I will introduce them while they are repositioning to trim a little time out. We will have Mr. Chip Bowling, who is a Board Member, National Corn Growers Association, from Newburg, Maryland. We will have Ms. Linda Raun, Partner, LR Farms, Chairwoman, USA Rice Producers' Group, El Campo, Texas. We will have Mr. Bob Stallman, President of American Farm Bureau Federation from Columbus, Texas. We will have Mr. Dee Vaughan, President, Southwest Council of Agribusiness from Dumas, Texas. Half the panel is from Texas, let the record reflect. Mr. Chuck Coley, President, Coley Gin and Fertilizer, Chairman of the National Cotton Council of Vienna, Georgia, and Mr. Scott Brown, President of National Barley Growers Association, Soda Springs, Idaho.

Mr. Bowling, your opening statement, please.

STATEMENT OF CHIP BOWLING, MEMBER, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION, NEWBURG, MD

Mr. BOWLING. Thank you. Chairman Conaway, Ranking Member Boswell, and the Members of the House Agriculture Subcommittee on General Commodities and Risk Management, on behalf of the National Corn Growers Association, I thank you for the opportunity to share our views and importance of sound risk management programs for family farmers.

My name is Chip Bowling. I am a third-generation farmer from Newburg, Maryland, where I grow corn, soybeans, wheat and sorghum. I currently serve on NCGA's Board of Directors. I also serve on the NCGA Public Policy Action Team, which is comprised of representatives from a variety of regions across the country.

As planting is in full swing, farmers are putting many dollars, a whole year's work and our entire yearly income at risk. Traditionally, we have worried about the risk from drought, floods, plant disease and pests, but now the risks are broader, deeper and larger. We are all connected on a global scale. Risks to agriculture come from many unexpected and diverse places—international incidents, economic crises around the world, trade policies, embargos, the price of a barrel of oil, and the list goes on. We may do everything right with decisions that are within our control on the farm, but there are still years when we cannot cover our losses from all risk. These threats are hard on farmers but even more devastating to young farm families like mine. The ability to purchase Federal crop insurance and have access to a flexible revenue-based risk management program to mitigate these risks is even more critical today.

The context of the 2012 Farm Bill in strong risk management in this: U.S. agriculture must be prepared to take on an even greater role in meeting the growing demands of consumers both here and abroad. Billions of people in the world remain hungry and the numbers are rising. We simply cannot afford to underestimate these challenges as well as our ability to help respond to meeting the needs for food and energy.

NCGA's Public Policy Action Team has spent the past 3 years working on new options for the 2012 Farm Bill that would simplify enrollment, streamline administrative procedures and eliminate overlapping coverage. Our organization has also made a commitment to being responsive to taxpayer dollars. Through our research, we have learned that risk management is the number one priority and that Federal crop insurance is the cornerstone of a sound farm safety net for the future.

We were pleased with the Department of Agriculture's decision late last year to begin a phase-in of long-overdue changes in the rating methodology of crop insurance that better reflects the actual loss experienced by corn growers. It is important that this process move forward so corn farmers will no longer be facing the widening gap between the loss ratio for corn and the premiums charged to growers for policy coverage. For example, a loss ratio on corn policies over the last 15 years has averaged .59 as compared to the established 1.0 loss ratio.

We recognize the need to provide a risk management tool that protects against revenue losses due to conditions not adequately covered by crop insurance. Such examples would include the 1980s farm crisis, the Asian economic collapse and most recently, the decline in European financial stability.

NCGA has also called for a transition away from direct payments. Our growers recognize it is time to move forward to a farm policy that better addresses today's production and volatile market risk. We believe that the agricultural risk coverage program and the Senate Agriculture Committee's-passed language reflects the NCGA principle that government programs should not encourage producers to take unnecessary risk. The program is designed to partially offset losses, and I want to emphasis partially, not covered by crop insurance to alleviate sharp year-to-year declines in price. NCGA understands farmers need to be able to endure a certain amount of loss in any 1 year. However, we are trying to protect farmers from depleting their emergency funds when they encounter revenue losses over multiple years.

While NCGA supports an area-wide revenue program, we realize producers in every region of the country face different risks. We look forward to working with other commodity organizations to develop a revenue protection program for all areas of the country.

There are certain things the Federal Government must do for citizens. Providing food security is one of them. Countries around the world understand the important role that agriculture plays in their economies. The 2012 Farm Bill presents an opportunity to advance needed improvements in the commodity title that could work more effectively with a strong Federal Crop Insurance Program.

NCGA appreciates the difficult task before your Committee to write a comprehensive and balanced farm bill, especially under the current budget restraints, but we urge Congress to pass a farm bill this year.

I thank you for your time today and your consideration of our policy recommendations.

[The prepared statement of Mr. Bowling follows:]

PREPARED STATEMENT OF CHIP BOWLING, MEMBER, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION, NEWBURG, MD

Chairman Conaway, Ranking Member Boswell, and Members of the House Agriculture Subcommittee on General Commodities and Risk Management, on behalf the National Corn Growers Association (NCGA), I appreciate the opportunity to share with you our views on the importance of sound risk management programs to family farms as you begin your deliberations on writing the 2012 Farm Bill. My name is Chip Bowling. I am the third generation on our family farm in Newburg, Maryland about 45 miles south of Washington, D.C. I raise corn, soybeans, wheat and grain sorghum. I currently serve on NCGA board of directors and am a member of the public policy action team.

The National Corn Growers Association represents more than 37,000 corn farmers from 48 states. NCGA also represents more than 300,000 corn growers who contribute to check off programs and 27 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers.

First, I want to state that NCGA believes it is very important to remember that U.S. agriculture must be prepared to take on an even greater role in meeting the growing demands of world consumers. The harsh reality is that billions of people in the world today remain hungry and the numbers are rising, a trend the Food and Agriculture Organization of the United Nations reports will continue for another 30 years. We simply cannot afford to underestimate these challenges as well as the market opportunities in a world where 95 percent of the population lives outside the United States. NCGA is confident that the U.S. agriculture sector can remain a vital bright spot in our nation's economy and further contribute to its recovery.

Fortunately, advances in seed technologies along with modern production and conservation practices have generated substantial increases in productivity that will help meet the pressing need for an expanding food supply. Investments in these new production technologies by America's corn growers have resulted in major increases in bushels produced while reducing acres under cultivation. In fact, the average bushels per acre increased from 114 in 1995 to 153 in 2010, a productivity increase greater than 30 percent. These remarkable numbers and the promise of new production technologies on the horizon translate into U.S. corn growers' ability to meet all our needs for food, feed and fuel. NCGA would argue that these investments in an industry fraught with financial and production risks have been made possible in large part by a reliable farm safety net with the cost-share Federal Crop Insurance Program as the foundation.

In light of the extremely difficult fiscal and economic conditions that our nation faces today, NCGA recognizes the monumental task before this Subcommittee and the full Committee to advance a new farm bill that must address a broad range of nutrition and agriculture concerns across the country. Our growers also recognize they must be part of the solution to address our nation's unsustainable budget deficits and are prepared to accept appropriate spending reductions in farm programs within the context of the overall Federal budget. In preparation for this new budget reality, NCGA initiated internal discussions over 2 years ago on how to improve upon the market oriented reforms in the commodity title. These ongoing discussions have been augmented by substantial independent analysis of suggested changes to existing farm programs and new concepts considered by our Public Policy Action Team.

First and foremost, NCGA cannot overemphasize the consensus among our membership that the Federal crop insurance program is the most critical risk management tool for their farm operations. Why is Federal crop insurance important to me and other farmers? When we go to the field this year to plant, tend and harvest a crop, we are putting many dollars, a whole year's work and our entire yearly income at risk. Traditionally, we worry about the risks from drought, floods, storms, plant disease, and pestilence to crops in the field, but now the risks are not just physical. Interconnected global markets that have benefited agriculture are now also a source of peril: international incidents, economic crises around the world, currency exchange rates, global monetary and trade policies, embargoes, the price of a barrel of oil and the list goes on. We may do everything right with our management practices and the decisions that are within our control on the farm, but there are years when we cannot adequately cover our losses from all the risks, seen and unseen.

These threats are hard on farmers like me, but even more so for the young farm families who are just getting started in agriculture. Access to an affordable crop insurance plan is even more critical in times like these to help farmers face the agronomic perils and the uncertainty of the marketplace. We believe it is key to the foundation of a good farm bill.

From a larger perspective, the extreme volatility in the commodity markets experienced over the past 5 years as well as the impact of major flooding in the Midwest and severe drought conditions in the South remind us that the risks in farming are expansive and immediate. The corn industry has certainly enjoyed considerable improvement in prices, but growers continue to confront the pressures of rising input costs and increasing land rents as competition for inputs bids up prices. Federal crop insurance, especially revenue protection coverage, has proven to be the most flexible and market oriented risk management tool for protecting family farm income; it has permitted growers to insure adequate revenue to cover that year's cost of operation.

For the 2011 crop year (as of May 7, 2012), 78.21 million acres of corn were insured under the Federal crop insurance program for liability protection of $51.57 billion compared to 73.6 million acres for $31.7 billion of protection the previous year. The premiums paid to insurance providers for corn policies totaled $4.76 billion with producers responsible for an estimated 40 percent of the program's total premium. In terms of sheer volume and total liability protection, it should be no surprise why NCGA is committed to working with the Risk Management Agency

(RMA) to ensure that the program is administered as efficiently and equitably as possible.

Consequently, we were pleased by the Department of Agriculture's decision late last year to begin a phase-in of long overdue changes in the rating methodology to better reflect the actual loss experience in the premiums paid for corn policies. Full implementation of the rating methodology changes by the RMA is necessary for the rating of corn policies to more accurately reflect reduced yield variability, yield trend increases and appropriate weighting corrections. Otherwise, the rating system will continue to set premiums well above corn's loss experience that has been documented over the past fifteen years. The loss ratio (indemnity payments divided by total premium) for corn over this period has averaged .59,[1] a level well below the combined loss ratio of other major crops, and far below the program-wide statutory loss ratio 1.0. Moving forward with the necessary reforms to the rating methodology will not only help to address inequities for many corn and soybean growers, but ensures a more cost efficient Federal crop insurance program.

While individual Federal crop insurance policy coverage provides very effective assistance if revenue or yield decline between planting and harvest, it is limited to each policy's insurance year and is insufficient to insure adequate return on investment over the intermediate term, such as for equipment. Crop insurance is simply not designed to address price-induced declines in revenue that can last several years. Extended periods of low revenue can result from successive years of price declines or multiple years of below average production or "shallow losses" not covered by crop insurance. Recall the depressed markets from the grain demand collapse of the 1980's and the Asian financial crisis of the late 1990s. These unfortunate events can and do result in a gradual, but serious erosion of a farmer's equity.

To address these gaps in protection against significant production shortfalls and volatile markets, NCGA has advocated for a more market-oriented, revenue-based risk management program that complements crop insurance. In our view, the *ad hoc* disaster assistance packages approved in the past in response to these situations were poorly targeted. A 2009 USDA Economic Research Report indicates that a revenue-based support program can "be more efficient than the traditional suite of uncoordinated commodity programs and disaster assistance programs in that payments are more closely aligned to actual changes in farm revenue. If prices and yields are inversely related, the revenue-based approach may offer less variable payment outlays from year to year than the long standing forms of support—even if mean total payments are the same between the two forms of support. In such a case, a high level of payments may also be less likely under revenue-support."[2]

The efficiency of revenue programs led NCGA to support the Average Crop Revenue Election Program (ACRE) adopted in the 2008 Farm Bill. ACRE represents a fundamental reform to the farm safety net; one that NCGA believes provides a more responsive risk management tool for rising input costs, improving yield trends and greater market volatility. To date, over 136,170 farms have enrolled in the program comprising almost 13 percent of base acres. Although the program's design and administration has been subject to criticism, the fact is ACRE has delivered some much needed assistance to producers across the country.

In response to grower concerns, NCGA has recommended that a new revenue based program include these proposed changes. (1) Set the revenue benchmark at the Crop Reporting District to better address area wide disaster related production losses closer to the farm. (2) Use a simple 5 year Olympic Average Revenue rather than separate price and yield formulas which cause considerable confusion. (3) Base payments on planted acres rather than base acres. (4) Lower the maximum payment level to ensure optimal protection against shallow losses and to eliminate overlap with crop insurance. Independent economic analysis of these recommended changes to ACRE indicates substantial savings for deficit reduction and a more effective revenue based risk management program for protection against multiple years of declines in revenue for most crops.

NCGA believes the legislation introduced by Senators Sherrod Brown, John Thune, Richard Durbin, and Richard Lugar, the Aggregate Risk Revenue Management Program (ARRM), well incorporates the principles of a market-oriented, revenue-based risk management approach while addressing some of the noted problems experienced with the ACRE program. H.R. 3111, The REFRESH ACT, introduced by Rep. Marlin Stutzman, also includes the ARRM program as a key reform to the next farm bill's commodity title. The Agricultural Risk Coverage (ARC) program in Title I of the Agriculture Reform, Food and Jobs Act recently reported by the Senate

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[1] Summary of Business, Risk Management Agency, May 2012.

[2] Cooper, J. 2009. *Economic Aspects of Revenue-Based Commodity Support,* ERR–72, U.S. Department of Agriculture, Economic Research Service, April. p. 1.

Committee on Agriculture, Nutrition and Forestry also embodies similar elements as the ARRM program and includes a producer election for farm or county level revenue protection. These proposals reflect the NCGA principal that government programs should not encourage producers to take on unnecessary risk. The programs are designed to partially offset losses not covered by crop insurance and to mitigate sharp year-to-year declines in price that crop insurance does not. NCGA understands farmers need to be able to sustain a certain amount of loss in any 1 year. It is very important that we try to protect farmers from depleting their emergency funds when they encounter revenue losses over a period of multiple years.

The revenue programs described in the 2009 USDA analysis are different from the current ACRE and other revenue based proposals for the 2012 Farm Bill and thus the specific provisions of revenue programs may result in significant differences in results. Nonetheless, the results illustrate the advantages of revenue-based programs over price-based programs such as the Counter Cyclical Payment (CCP) and Marketing Loan Assistance (MLB) programs in the 2008 Farm Bill.

With respect to relative efficiency, the same research notes that "providing price and yield compensation separately means that producers may receive support when they do not need it, or not receive support when they need it most. For example, a farmer who suffers a complete yield loss will not receive a payment under a price-based program that is tied to current production, (*i.e.,* the MLB)."[3] Revenue and traditional programs are compared by simulating two revenue programs and the traditional programs over the 1975 to 2005 period and adjusting program parameters such that the average total costs are about equal ($3 billion per year). Using a coefficient of variation[4] to compare the two revenue programs with the traditional programs, revenue variation in the revenue programs was about half that of the traditional programs (*Appendix Table 1*).[5] The simulation results in *Table 1,* and also illustrated in *Appendix Figure 1,* show the high and low payments are less frequent in the revenue based program, with the revenue programs payments between about 50% below ($1.6 billion) to 60% above ($5 billion) the average payment ($3 billion) within a 90% confidence interval. This compares to the traditional program variation 90% confidence interval of almost 90% below ($0.38 billion) to nearly 130% above ($7.1 billion) the average payment ($3 billion).

In establishing an area or farm level revenue program, there is a primary issue to consider. For a limited budget environment, the area level for payment determination is the optimum for delivering assistance when the producer needs it the most. The 2011 USDA ACRE analysis examines the relationship of reducing the level of statistical aggregation from state to CRD to county to farm in *Appendix Table 2*.[6] As shown, farm level variability ranges from about 140% of county level for rice to 290% for grain sorghum.

This table suggests that a lowering of payment determination from county level to farm level would further increase costs. With a limited budget, the increase in payments at each level must be accompanied by a reduction in the amount of that payment that may be made on each acre, so that the total expenditure does not increase. *Table 2* indicates that reduced payments for most would be made two to three times as frequently at the farm level as at the county level. This suggests that growers would receive the same total amount of payments, but more frequently and in smaller amounts and that they would be more related to farm yield variability than to price variability. The current crop insurance program already provides the means to manage this type of risk. Moreover, this trade-off, from greater payments at the county to lower payments at the farm, means that sudden and prolonged price downturns of the type that occurred from 1998 to 2001 would result in payments being reduced from the 80% payment factor in the ARC program to perhaps half of that amount. A second trade-off relates to land rents. Less variable, more frequent producer payments are more readily capitalized into land values and rents. As we have seen with Direct Payments, this does little to reduce the producer's operating risk.

As noted earlier, a national average for all crops for farm level revenue variability is about twice the county level variability. For the same level of revenue coverage, 89% to 79% of benchmark revenue as is in the Senate bill, for example, two different

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[3] *Ibid.* p. 12.

[4] A measure of dispersion around a mean value of a distribution that is calculated by dividing the mean by the standard deviation of the distribution.

[5] Cooper, 2009. op. cit. p. 12.

[6] Dismukes, R., K.H. Coble, D. Ubilav, J. Cooper, and C. Arriola. 2011. *Alternatives to a State-Based ACRE Program: Expected Payments Under a National, Crop District, or County Base,* ERR–126, U.S. Department of Agriculture, Economic Research Service, September. p. 2.

payment rates are used, 80% for the county and 65% for the farm level election. Now consider the revenue history of the 1985 to 1988 and 1998 to 2001 periods.

The 1985 to 1988 period represents the collapse of world demand for grain and the farm financial crisis and also include significant drought in 1988. Over this period, national average corn yields recovered from the drought in 1983 to 106 bushels per acre to 120 bushels in 1987. Yields suffered another drought in 1988 and bounced back to 116 bushels in 1989. Prices, however, fell 53%, to $1.50, in 1986 from 1983 highs of $3.21 and, by 1989, had only recovered to 27% below 1983 levels. National average corn revenue per acre declined 31% from 1983 to 1986, from $260 per acre to $179 per acre; revenues recovered with the drought in 1988 to $232 per acre, but then dipped again in 1989 to $215 per acre.

The 1998 to 2001 period, which began with the Asian financial crisis, saw national average corn yields increase from 134 bushels per acre in 1998 to 138 bushels in 2001 while prices fell 44% from $3.24 in 1995 to $1.82 in 1999. Even when prices rose, they were still 38% below 1995 levels in 2005. National corn revenue per acre fell 34% over the same 1995 to 1999 period, from $368 per acre to $244; by 2005, revenue was still 20% below 2005 levels.

Figures 2 and *3* illustrate the response ARC would have over the 1977 to 2010 period for corn based on a $4.50 long-run corn price for McLean County Illinois. In particular, it illustrates how the revenue program could buffer the effects of significant yield loss in 1988 coupled with a collapse of world grain demand during the 1985 to 1989 period, and the effects of price collapse from the Asian financial crisis over the 1998 to 2001 period. The 1977–2010 average per acre county payment of $17.64 is more impressive when it is concentrated in the years of significant revenue loss. The 1977 and 1986–88 projected payments of $67 to $62 per acre and 1998 to 2000 projected payments of $67 per acre are more reassuring than the average payment. By contrast, the average per acre farm payment of $13.56 is less helpful in the difficult years of 1977 and 1986–88, when projected per-acre payments crested between $50 to $26 per acre and 1998 to 2000 when projected payments reached $42 to $39.

Recall that this was a time when Congress added market loss assistance that averaged about $4.6 billion a year from 1998 to 2002. If more producers will seek farm level revenue protection, they will limit themselves to 60% of a revenue payment, as it was established in the Joint Committee recommendation, or to 65% as it is set in the current Senate bill. In contrast, the Senate bill's county election payment rate is 80%. Paradoxically, the more growers elect the farm level program, the lower the payment rate will have to be to offset the more frequent payments.

The more attractive a county wide program is, the less costly the two programs will be as growers elect the lower cost county program until, on average, the expected value of county and farm options approach one another. As the payment rate for the county election increases, the cost of the farm program election is expected to decrease more rapidly than the cost of the county program election increases. This will allow the farm election payment rate to be increased within the same limited budget.

There are two exceptions to these arguments for county payment determination. First are those producers whose farm revenue correlation with the area is sufficiently low that even though an area program might provide adequate assistance over time, it would not reliably occur when the producer needed it on the farm. Second are producers, who because of premium expense, purchase individual levels of crop insurance coverage below the 79 percent level to which the Senate Agriculture Committee's proposed ARC revenue program extends. This gap in coverage between ARC, the farm program, and individual crop insurance coverage has been referred to as the "doughnut hole". NCGA supports two means to address these types of circumstances.

To address the first exception, allow farm-level election by growers who would prefer a farm level revenue program. Because farm-level revenue variability is greater than area level variability, a farm level ARC program would provide more payments to a producer than an area level determination. NCGA believes there should be an adjustment to the county and farm level payments such that a producer would receive the same expected value of payment at either farm or county level from the program. It is important to set the relative benefits so that the payment rates to producers in both county and farm program elections receive the maximum payment rates within the budget limit.

In the second exception, NCGA supports a Supplemental Coverage Option (SCO) through the Federal Crop Insurance Program. SCO is similar to Gap Coverage that NCGA proposed in its testimony during the Senate Agriculture Committee's hearing on March 15. Both would allow a producer to buy area coverage, at the county level in a GRIP or GRP policy, at coverage up to 75%, in the case of ARRM, or 79%, in the case of ARC, and extend to the coverage of the individual insurance policy, as low as 50%. The higher the level of individual coverage is, the lower the premium on the Gap or Supplemental Coverage. The premium would effectively be the difference between the area 75% or 79% premium and the area premium calculated for the individual coverage, extending to 50%. The area premium could have an increased subsidy over that currently provided in the crop insurance statute, but NCGA did not specify one at that time.

As this Subcommittee considers various policy proposals to meet the diverse risk management needs for producers throughout the country, NCGA recognizes the inherent difficulty of crafting legislation that provides a safety net that is widely effective as well as equitable in its approach. We understand commodity title reforms will be measured against "equity" considerations in the form of recent farm bills. One should not lose perspective, though, on appropriate relative funding levels that would first recognize significant changes in recent farm policy, particularly those changes that would move farm policy in a more market oriented, risk management direction.

As a response to current fiscal constraints and diminished public support for the decoupled Direct Payment program, we have already seen provisions in House-Senate Agriculture Committees' recommendation to the Joint Select Committee on Deficit Reduction and the Senate-reported bill to eliminate not only Direct Payments, but Counter-Counter Cyclical Payments and the ACRE program. These policy decisions have also called for using much of the reduced outlays to fund alternative programs and the rest to reduce the Federal deficit.

Questions and concerns have been raised regarding the commodity and crop insurance titles' provisions in the bill recently approved by the Senate Agriculture Committee. Programs designed as revenue support programs, either using producer payments or new, subsidized crop insurance policies have been proposed to replace the current suite of programs. In both cases, the new provisions are coupled to production; that is, as the volume of production increases, greater payments or indemnities will be made if market revenues are determined to qualify for assistance. We understand that the perceived fairness of the replacement program is likely to be viewed as relative shares of projected commodity program spending in the replacement programs compared to shares of projected spending in the CBO Baseline, which is based on a continuation of the 2008 Farm Bill policies. Almost ¾ of Baseline spending is based on decoupled payments, which themselves are based on planting and price history dating back to 1978 and 1995, respectively. Using relative shares of decoupled spending to determine appropriate shares of re-coupled support does not reflect the change in policy that revenue programs provide.

Decoupled payments, beginning as declining Production Flexibility Contract (PFC) payments in the 1996 Farm Bill, were designed to compensate producers when the primary programs providing crop producer income support were eliminated. They were continued in the 2002 Farm Bill as Direct Payments with the provision that producers could choose to retain their PFC Base payment acres or update their production history to reflect more recent practices from 1997 to 2001. The data show that producers were able to maximize their decoupled government payments and respond to market signals in planting decisions. The result was that many crops were planted well below their base acreage on which PFC/DP payments were received, as intended. Where decoupled payments were offsetting the higher production cost of high value crops, such as cotton, peanuts and rice, as some have characterized their purpose, some of the high value crop base acres were planted to other program crops where market returns were more attractive.

To base projected current spending for new, coupled revenue programs on spending for past, decoupled programs, which should have adequately met their compensation objectives, would seem to have little relevance to protecting current gross revenues at current prices.

An alternative comparison to baseline shares would first adjust expenditures for recent 2010–12 planted acres relative to 2011 Direct Payment Base Acres,[7] as shown in *Appendix Table 3*.[8] Thus, where planting has declined relative to base acres, the adjustment factor is less than one, as in the case of sorghum and barley, and where plantings have increased, the factor is greater than one, as is the case

[7] Direct Payments are made on 85% of base acres. The Senate bill's payments are made on 80% of planted acres at the county level and 65% of planted acres at the farm level. This difference in payment acres in not included in the table.

[8] *Tables 3* and *4* are based on CBO estimates of the Senate Committee's Managers' Amendment. The bill, as reported, was further modified, in particular the Baucus #12 amendment, which affected Title I. CBO estimates for the amended Managers' Amendment were not available as of this writing.

with soybeans. The adjusted share of baseline reflects a greater payment on planted acres than a producer has been receiving under the 2008 Farm Bill. 100% of Direct Payments for barley, for example, were effectively made on 2010–12 average acres planted to barley that are ⅓ 2011 barley base acres. Consequently, its adjustment reflects a projected receipt on payments on planted acres equal to 82% of direct payments and other commodity support spending per base acre. Producers of crops on less than all base acres may be letting the land idle, in which case they have received compensation for their land's value since 1996 or 2002. If the producer is planting the crop for which the base was established or another crop, he will receive revenue protection based on an Olympic average of price and yield.

A more useful assessment is to compare a farm bill's expenditures to each commodity's market value. This comparison will indicate how much the production of each crop relies on government programs for a sustainable income in order to remain in production. ***Appendix*** *Table 4* shows the value of expenditures for each commodity in the baseline and under the Senate bill as a share of 2009–11 average crop values of production. In this comparison, corn and soybeans, among the major crops judged to have benefited the most under the Senate bill as a relative share of baseline, are seen to have received only 3.5% and 2.2%, respectively, of market value from government transfers. Under the Senate bill, these share of market values change to 2.6% for each. These levels are well below the 14.4% to 8.8% of the other five major commodities in the baseline and still well below the 5.0% to 3.7% in the Senate bill.

There are certain things our Federal Government must do for its citizens, providing food security is one of them. Countries around the world understand the important role that agriculture plays in their economies. They, too, provide assistance to farmers when needed along with resources for long term strategic investments in research and other priority programs. The 2012 Farm Bill presents an opportunity to advance needed improvements in the commodity title that can work more effectively with a strong Federal Crop Insurance Program. NCGA appreciates the difficult task before your Committee to write a comprehensive and balanced farm bill, especially under the current budget constraints. I thank you for your time today and your consideration of our policy recommendations.

APPENDIX

Table 1[9]

Stochastic Analysis of the Distribution of Corn Program Payments Under Alternative U.S. Programs (2005 Expected Prices and Yields)

Target Revenue Program	Payment type			
	Total	Extended Coverage	Production Limited	Basic[1]
Mean payment ($ billion)	3.03	1.16	1.64	0.22
Coefficient of variation[2]	0.32	0.52	0.24	1.06
90% confidence interval (lower, upper)	1.62, 4.80	0.39, 2.28	1.06, 2.37	0.02, 0.73
Market Revenue Program	Total	National[3]	Supplmental	
Mean payment ($ billion)	3.17	2.33	0.85	
Coefficient of variation	0.34	0.430	0.59	
90% Confidence interval	1.55, 5.09	0.76, 4.06	0.37, 1.97	
Traditional-Style Program	otal	P–MLB	P–CCP	Disaster
Mean payment ($ billion)	3.11	1.26	1.67	0.19
Coefficient of variation	0.68	1.35	0.53	1.46
90% confidence interval	0.38, 7.10	0.00, 4.78	0.00, 2.28	0.02, 0.83

[1] The "basic" payment covers shortfalls in county revenue per acre with respect to expected county revenue per acre. The "extended coverage" payment is based on a target revenue using a statutory price, and provides supplemental coverage over the basic payment. The "production-limited" payment is similar to the extended coverage payment but applied to a fixed base acreage for the farmer, and provides supplemental coverage over the extended coverage payment.

[9] Cooper. 2009. op. cit. p. 13.

[2] The coefficient of variation in this application is a measure of the dispersion of the probability distribution of revenue per acre that allows comparisons across populations with different means, and is the standard deviation of revenue per acre divided by the mean revenue per acre. The smaller the coefficient of variation, the lower the dispersion relative to the mean value of the distribution.

[3] The "national" revenue payment rate is based on the difference between national expected and actual revenue per acre, and the "supplemental" revenue payment provides additional coverage based on a county-level payment rate.

Figure 1[10]

Figure 5a

Frequency of commodity payments for corn—traditional-style program

The traditional style programs more frequently have high payment

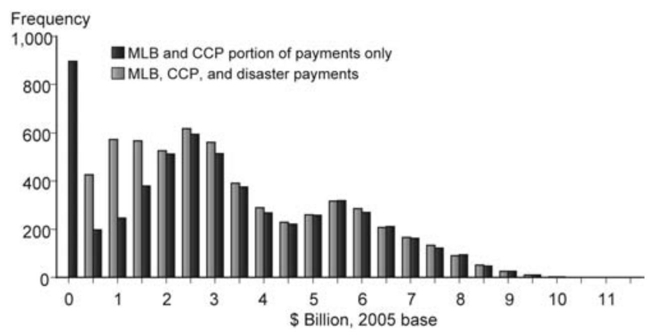


Figure 5b

Frequency of commodity payments for corn—target revenue program

The target revenue programs produces a tighter range of payments

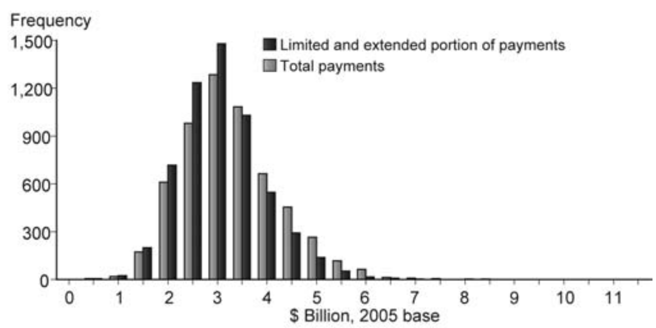
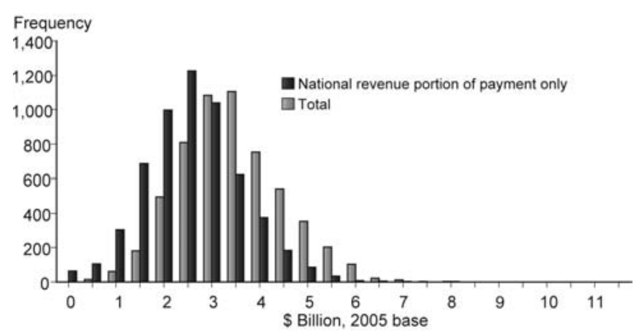


Figure 5c

Frequency of commodity payments for corn—market revenue program



Note: Each bar covers a $500 million range of payments. The taller the bar, the greater the number of payments falling in the associated range.

[10] *Ibid.* p. 15.

Table 2[11]

Yield and revenue variability at different levels of aggregation

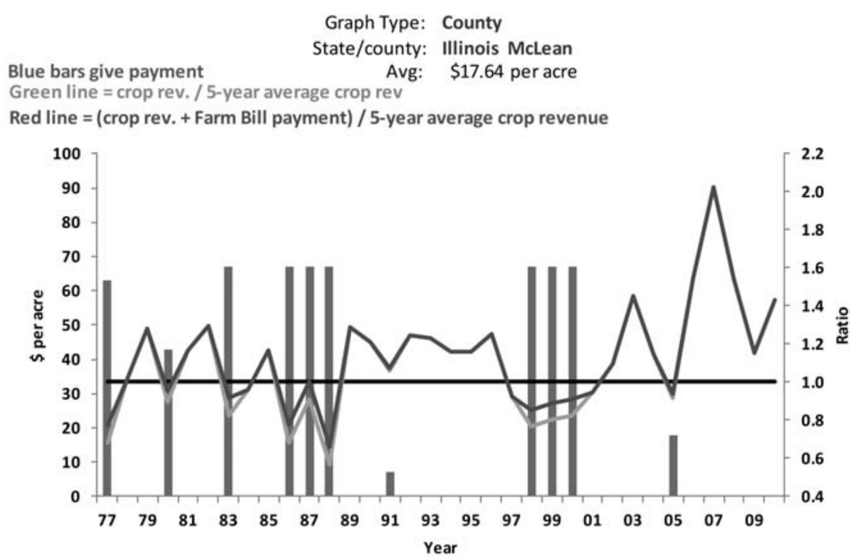
Item/Level	Corn	Soybeans	Wheat	Cotton	Grain sorghum	Rice, long-grain	Rice, Medium/ short-grain
	Coefficient of Variation						
Yield variability:							
National	0.069	0.058	0.056	0.076	0.099	0.037	0.061
State	0.097	0.099	0.135	0.119	0.123	0.043	0.061
District	0.110	0.113	0.169	0.152	0.167	0.045	0.062
County	0.122	0.125	0.195	0.184	0.202	0.052	0.067
Farm	0.359	0.372	0.520	0.672	0.776	0.335	0.263
Revenue variability:							
National	0.195	0.188	0.185	0.197	0.214	0.272	0.288
State	0.207	0.205	0.215	0.225	0.230	0.275	0.288
District	0.214	0.213	0.240	0.250	0.256	0.275	0.288
County	0.221	0.220	0.261	0.274	0.283	0.276	0.289
Farm	0.413	0.425	0.558	0.715	0.829	0.440	0.395

Averages weighted by acres harvested in 2010. District = Crop Reporting District. Medium/short-grain rice is for a single State, California. Based on simulations.

Figure 2

ARC-County

Simulated History Payment Based on Today's Dollars



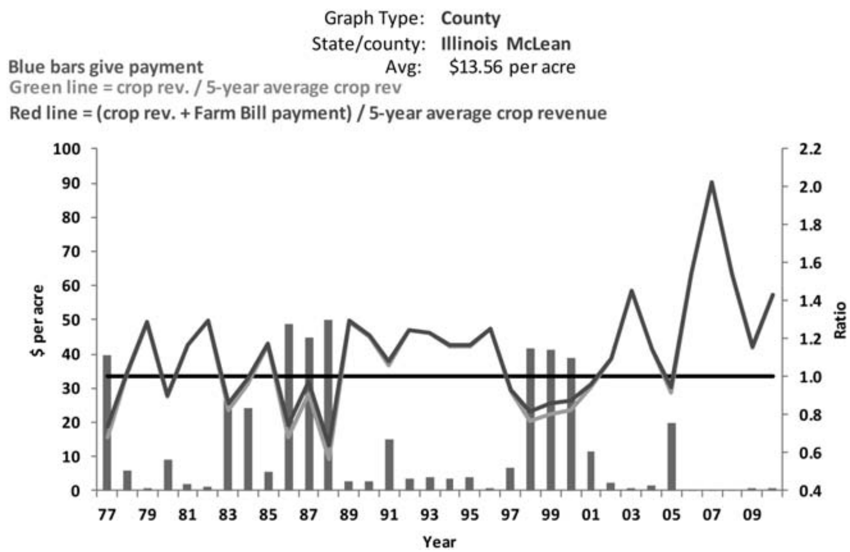
Note: All past payments are stated in today's terms, not in historical terms.

[11] Dismukes *et al.* 2011. op. cit. p. 2.

Figure 3

ARC-County

Simulated History Payment Based on Today's Dollars



Note: All past payments are stated in today's terms, not in historical terms.

Table 3

Comparison of CBO March Baseline to CBO Est. of Managers' Amendment, FY 2013–22

	CBO March Baseline	Managers' Amendment	Share of Baseline	(Avg 2010–12 Planted A)/2011 Base A	Share/(Avg 2010–12 Planted A/Base A)
	$ millions				
Title I:					
Corn	22,179	−5,752	0.74	1.09	0.68
Sorghum	2,038	−505	0.75	0.48	1.56
Barley	852	−615	0.28	0.34	0.82
Oats	48	−11	0.77	0.94	0.82
Soybeans	7,618	1,459	1.19	1.50	0.79
Wheat	11,131	−6,409	0.42	0.74	0.57
Upland Cotton	6,843	−6,077	0.11		
Rice	4,336	−2,842	0.34	0.67	0.51
Peanuts	1,013	−314	0.69		
Other Oilseeds	270	50	1.19	1.21	0.98
Dairy	432	−59	0.86		
Wool	36	0			
Mohair	10	0			
Honey	32	0			
Dry Peas	25	17	1.68		
Lentils	29	25	1.86		
Small Chickpeas	0	0			
Large Chickpeas	0	0			
Total	**56,892**	**−21,033**	**0.63**		
Title XI:					
Cotton-STAX		3,224			
Supplemental Coverage Option		682			
Peanut Revenue Insurance		239			
Participation effects from Title I		−2,487			
Total Titles XI–I Effects		**1,658**			
Total Upland Cotton	6,843	−2,853	0.58	0.71	0.83
Total Peanuts	1,013	−75	0.93	0.87	1.07
Total Commodities	**56,892**	**−19,375**	**0.66**	**0.98**	**0.67**

Table 4
Crop Values, 2009–11 Average, CBO March 2012 and Senate Managers' Amendment Average Commodity Program Outlays

Crop	Crop Value 2009–11 Average	CBO March 2012 Baseline	Managers' Amendment	CBO March 2012 Baseline	Managers' Amendment
	$ millions		% of 2011–12 Avg Value		
Corn for grain	62,614	2,218	1,643	3.5%	2.6%
Sorghum for grain	1,370	204	153	14.9%	11.2%
Barley	829	85	24	10.3%	2.9%
Oats	204	5	4	2.3%	1.8%
Soybeans	35,159	762	908	2.2%	2.6%
Wheat, all	12,616	1,113	472	8.8%	3.7%
Upland Cotton	5,692	684	399	12.0%	7.0%
Rice	3,008	434	149	14.4%	5.0%
Peanuts	919	101	94	11.0%	10.2%
Other Oilseeds	565	27	32	4.8%	5.7%

References

Cooper, J. 2009. *Economic Aspects of Revenue-Based Commodity Support,* ERR–72, U.S. Department of Agriculture, Economic Research Service, April.

Dismukes, R., K.H. Coble, D. Ubilav, J. Cooper, and C. Arriola. 2011. *Alternatives to a State-Based ACRE Program: Expected Payments Under a National, Crop District, or County Base,* ERR–126, U.S. Department of Agriculture, Economic Research Service, September.

The CHAIRMAN. Thank you, Mr. Bowling.
Ms. Raun.

STATEMENT OF LINDA C. RAUN, CHAIRWOMAN, USA RICE PRODUCERS' GROUP; PARTNER, LR FARMS, EL CAMPO, TX; ON BEHALF OF USA RICE FEDERATION; U.S. RICE PRODUCERS ASSOCIATION

Ms. RAUN. Good morning, Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee. My name is Linda Raun. My husband LG and I are rice farmers from El Campo, Texas. I serve as Chairwoman of the USA Rice Producers' Group and am testifying today on behalf of the USA Rice Federation and the U.S. Rice Producers Association.

Members and staff may read about the rice industry's contribution to the economy and jobs, to wildlife habitat and to a healthy balanced diet in my written testimony. I will focus my remarks on some key points.

Throughout this farm bill process, rice farmers have made two reasonable requests. First is for the farm bill to provide farmers risk management options they can choose from based on the perils most relevant to their operations. Second is for the farm bill to ensure that there is real price protection in each of these options. We also joined our fellow commodity groups in asking that the farm bill protect and improve crop insurance so it works for all crops in regions, and we urge that the historic AGI reforms made in 2008 and just implemented 2 years ago not be reopened.

Towards this end, with a few modifications, we believe that the deficit reduction package put together last fall laid a solid framework for a successful farm bill. On behalf of the entire U.S. rice industry, we want to particularly thank Chairman Lucas and Ranking Member Peterson for their leadership and for their fairness in looking out for all of America's farmers and are very grateful to the Members of this Subcommittee who supposed this important effort.

Regrettably, the Senate Agriculture, Nutrition, and Forestry Committee has chosen a different path by denying producers a choice of risk management options that meaningfully address the unique perils they face and instead forcing all farmers of all crops into a program tailor-made for two crops and one region of the country. Many producers of other crops and even producers of those two crops that are grown in other regions of the country are left with no safety net at all.

Consider this: today there is a renewable fuel standard that greatly enhances the value of corn and beans. There is also Federal crop insurance that is tailor-made for corn and beans, and if some have their way, there will also be a farm bill that is tailor-made for corn and beans in one area of the country. Meanwhile, rice obviously does not participate in the RFS, and crop insurance does not work well for rice, so rice farmers find themselves being locked out of the farm bill because our risks do not match the kind of risks some in Washington think we should have.

To be clear, I personally favor the RFS and I support crop insurance, which I hope against hope will some day work for rice. I sincerely support my fellow corn and bean producers and am proud to call many of them personal friends. All I ask is that rice farmers not be left out in the cold. So I ask the question: Why are some in Washington so afraid to trust farmers by giving them a choice?

On the issue of price protection, which is the biggest risk we face as rice farmers, I am also disappointed in the Senate Agriculture Committee's farm bill because it does not have price protection. We support having the choice of a price-only option, a countercyclical safety net that triggers only when prices decline. This is the only policy proposal that provides a safety net for crops that have had low prices going into this farm bill like rice, or will have experienced significant price declines over the next few years. For our California medium-grain rice farmers who have enjoyed higher prices, the revenue option might actually work. Under the revenue options in the Senate bill, the revenue guarantee is only as good as your previous 5 years' revenue. Our goal is not to take this option away from producers but to add the option of a price-only protection.

On crop insurance, we have worked for 4 years now with a private developer and RMA to develop two policies that might be useful to rice farmers, but after all our work, we continue to face potential impediments to getting final approval of the products, and even if approved, it will only be a pilot program for the first several years. Also, we are told that the new supplemental coverage option being discussed in the farm bill might not be available in many rice counties in the first year of the new farm bill. In short, despite our efforts, we still find doors closed on us on crop insurance.

Finally, in changes made in the Senate bill to payment limits and actively engaged rules, I would just say they are totally unworkable for most family farmers, not just rice farmers, and Lord help us if they ever become law. Unfortunately, they hold the promise of being an accounting and paperwork nightmare for all producers.

Mr. Chairman, in closing, let me just say a lot has been said about producer choices somehow causing planting distortions. I will remain silent on this issue in deference to fellow producers and farm groups and to not make your already difficult job any harder.

But as you might imagine, the mix of Federal policies in place today coupled with what the Senate has in mind may well influence planting decisions but I can assure you it is certainly not in the direction of rice. If we want only one or two crops grown in this country no matter what the market or agroeconomic conditions say, the Senate Agriculture Committee has written a bill for you but in the end such a lopsided approach is not good for those on either the winning or the losing side of this equation. Taking the risk out of farming for some while stripping away the safety net for others would ultimately hurt both. We hope to work with Members of the House Agriculture Committee to restore balance in this process.

Thank you for the opportunity to be here today.

[The prepared statement of Ms. Raun follows:]

PREPARED STATEMENT OF LINDA C. RAUN, CHAIRWOMAN, USA RICE PRODUCERS' GROUP; PARTNER, LR FARMS, EL CAMPO, TX; ON BEHALF OF USA RICE FEDERATION; U.S. RICE PRODUCERS ASSOCIATION

Introduction

Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee, thank you for the opportunity to offer testimony on how commodity programs will affect producers in the 2012 Farm Bill.

My name is Linda Raun. My husband LG and I raise 1,000 acres of rice in Wharton County near El Campo, Texas. We have been actively farming since 1976. I currently serve as Chairwoman of the USA Rice Producers' Group and I also serve on the College of Agriculture Development Council at Texas A&M University. I have previously served as a Lower Colorado River Authority Director and served two terms on the Texas State Committee for the Farm Service Agency. My testimony here today is on behalf both the USA Rice Federation and the U.S. Rice Producers Association.

U.S. Rice Industry Overview

The U.S. rice industry contributes $34 billion in economic activity and provides jobs and income for not only producers and processors of rice, but for all involved in the value chain, contributing to 128,000 jobs. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Mississippi Delta region including Arkansas, Mississippi, and Missouri and in my home area, the Gulf Coast region of Texas and Louisiana.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3 billion as measured in farm gate value.

Today, about 86 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide. On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Mexico, Japan, Canada, and Haiti. In 2011 we exported over $2 billion in rice to markets around the world.

Beyond the substantial economic benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. All of the major rice-production areas in the U.S. host important waterfowl activity during winter months. Rice-growing areas provide surrogate habitats for hundreds of wildlife species that rely on wetland conditions for species survival, some of which would be threatened but for the wetland environments provided by flooded rice fields.

Without rice farming, wetland habitats in the U.S. would be vastly reduced. Maintaining U.S. rice acres provides conservation benefits of national significance that are vitally important because annually, anywhere from 2.5 to 3.0 million U.S. rice acres are an irreplaceable and invaluable conservation safety net for migratory waterfowl such as ducks and geese.

In my home State of Texas, we are concerned with the lasting effects of the drought conditions in 2011. Because of a decision by the Lower Colorado River Authority to reserve back a portion of the water that would have been sold to farmers for use in their rice fields, Texas will lose ⅓ of their rice acres for the 2012 crop year. The increased demand for water between consumers, agriculture, and other industries further emphasizes the need for strong farm policy in this country.

Importance of Agriculture and Cost-Effective Farm Policy

The U.S. agriculture sector is one of the few bright spots in the U.S. economy. In a time of economic downturn, agriculture producers have managed to remain profitable, create new jobs, and continue to provide consumers in the U.S. and all over the world with a safe and abundant supply of food and fiber.

U.S. agriculture is vitally important to America and an effective farm policy safety net is critically important to U.S. agriculture.

Following the recent passage of the Agriculture Reform, Food, and Jobs Act of 2012 by the Senate Agriculture Committee, the rice industry remains concerned that the policy needs of many crops in many regions of the country were largely ignored in that bill. As you know, farm bills tend to have regional differences due to the needs of different crops grown in diverse regions. However, historically farm bills have been developed that took into account these differences and provided a workable policy for all crops and regions. We are discouraged to see a change in this practice as regards the Senate Agriculture Committee bill. All regions of the country experience risk in crop production. Therefore, one appropriate manner to judge effectiveness is to consider the amount of risk protection provided in the form of dollars spent. This is especially true when a farm bill involves new programs whose effectiveness is untested. Necessary mid-course adjustments are not inconceivable in this scenario. Estimates show that midwestern and northern farmers will have an increasingly disproportionate share of the baseline and Sunbelt crops will be left with a further shrinking baseline coupled with ineffective risk protection for many crops. (*See* ***Chart 1***)

With the House and Senate farm policy recommendations to the Joint Committee on Deficit last fall, Agriculture became the only industry to offer reductions in spending for the purposes of debt reduction. While farmers have always been willing to do their part for deficit reduction, I would urge lawmakers to reject cuts to U.S. farm policy that would exceed the levels recommended in the proposal that the House and Senate Agriculture Committee Chairs and Ranking Members had agreed to.

I firmly believe that any cuts must also focus on areas of the budget outside of farm policy that have not yet contributed to deficit reduction yet comprise a significant share of the Federal budget and the farm bill baseline.

2008 Farm Bill Review

The 2008 Farm Bill continued the non-recourse marketing loan, loan deficiency payment, and the direct and counter cyclical payment policies. While the counter-cyclical payment and marketing loan have been helpful in the past, they have recently been overwhelmed by the cost of production. If crop prices drop sharply producers will be in dire financial straits by the time these policies make payments. The direct payment, whatever its imperfections, has assisted rice producers in meeting the ongoing and serious price risk of farming in today's environment. We have come to understand and accept the political reality that direct payments will be eliminated, even though the Federal Government has long been consistently sending signals to the agriculture community that we should shift our policies towards those that are green box and WTO friendly. It is a bit ironic that the rice industry heeded those instructions in previous farm bills, and we, more than any other commodity, will be severely impacted by the loss of the direct payment unless Congress works with us to find a workable policy solution.

The new policies created in the 2008 Farm Bill included the addition of Average Crop Revenue Election (ACRE) as an alternative to countercyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to Federal crop insurance.

Neither the ACRE nor the SURE policy has offered much value to rice farmers. Specifically, in the first year of ACRE signup, only eight rice farms representing less than 900 acres were enrolled nationwide. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who suffered significant monetary losses in 2009 due to heavy rains and flooding occurring prior to and during harvest, or the significant losses last year as a result of spring flooding in the Mid-South. SURE's inability to provide disaster assistance for such catastrophic events further highlights the continuing gap in available programs to help rice producers manage or alleviate their risk.

The 2008 Farm Bill also made substantial changes to the payment eligibility provisions, establishing an aggressive adjusted gross income (AGI) means test and, albeit unintended by Congress, a very significant tightening of "actively engaged" requirements for eligibility. USDA was still in the process of implementing many of the provisions of the 2008 Farm Bill in 2010, and the final payment eligibility rules were only announced in January of that same year, a mere 2 years ago. Consequently, we are still adjusting to the many changes contained in the current farm bill, even as Congress writes the 2012 Farm Bill.

2012 Farm Bill

With the above mentioned as a backdrop, the U.S. rice industry developed a set of farm policy priorities in September of last year to guide us during consideration of the 2012 Farm Bill. The U.S. rice industry is unified in its firm belief that farm policy designed to support a strong and dynamic U.S. agriculture sector is absolutely vital. Although the different growing regions within our industry are interested in utilizing policy options in different ways, we remain united and committed to effective farm policy for all growing regions for all crops. Any rumors regarding a split in the rice industry or a difference of preferred policy for rice producers is inaccurate. We support a choice for rice producers because we recognize that a one-size-fits-all policy will not result in an effective risk management policy for all regions.

The development of farm policy should be focused on providing producers with price protection, not just for price moves during the growing year, but for multiple years of price declines as we saw occur in the late 1990's. Those that hold out crop insurance as the centerpiece of farm policy certainly don't understand the nature of farming in my area. Crop insurance can't, and it was not designed to, provide price protection across multiple years. Adequate price protection is the most critical component of the next farm bill and must be included in any policy option.

Right now prices are decent for many crops, but we all know how cyclical commodity prices are, and every grower needs a policy that will provide some downside price protection if (and likely when) we see a steep decline in commodity prices. Without this type of certainty, farmers, like any businessperson, will take steps to minimize their exposure to risk, resulting in a pullback in investments for their farm. This pullback starts first with their suppliers of inputs (equipment, grain storage facilities, fertilizer) and then begins to impact the majority of businesses in rural America. We've seen this cycle play out over and over and I hope we will not repeat the mistakes of the past by putting in place a farm policy that assumes good prices are here to stay, and then we find out it is ill-equipped to deal with the decline in prices that is sure to come. (*See **Chart 2***)

Effective farm policy gives producers the confidence we need to continue to invest in our farms and the confidence that lenders need to extend the financing to producers to make these investments.

I hear some contend that a revenue-based policy with no reference or floor price is the right approach to take in this farm bill and is all that is needed when coupled with crop insurance. It seems to me that this approach is flawed in several ways. First, this assumes that crop insurance works equally well for all crops and regions, which I can assure you is not the case today. Second, this assumes that we won't face another 1998 through 2002 scenario where we had good commodity prices that quickly fell to catastrophic levels due to global factors. Third, this assumes that if commodity prices fall then input costs will decline in sync and proportional to the decline in prices. I have to say that if history is any guide, then I believe all three of these assumptions will prove wrong. And by not planning now for this type of scenario, we are setting ourselves up for another situation where farm policy will not be equipped to respond to this price decline. The result will be a significant economic downturn in rural America, followed by calls for Congress to provide additional economic assistance in a time of large Federal budget deficits and debt.

In addition, what happens if the price of only one or two commodities decline sharply? I can't imagine that input costs are going to decline in this scenario, so producers of these crops are forced to deal with a severely depressed price environment where our options are to either stop producing all together, or shift into the other crops with higher prices. This could have severe implications to the infrastructure for the crops with depressed prices and reduced production. We have seen this occur in some areas with rice infrastructure and I believe we can ill-afford a farm policy that would not provide us with effective down side price protection to forestall any further contraction of this industry.

Given the budget pressures and other considerations facing Congress that have caused policymakers to consider altering the former policies in favor of more directed and conditioned assistance, we developed the following priorities:

- First, we believe the triggering mechanism for assistance should be updated to provide tailored and reliable help should commodity prices decline below today's production costs, and should include a floor or reference price to protect in multi-year low price scenarios.
- Second, as payments would only be made in loss situations, payment limits and means tests for producers should be eliminated, or at a minimum, not further tightened.
- Third, Federal crop insurance should be improved to provide more effective risk management for rice in all production regions, beginning with the policy development process.

More specifically relative to each of these points, we believe that:

Price Protection is a Must

Given price volatility for rice is the primary risk producers face and they do not have an effective means of protecting themselves against such price volatility, with price fluctuations largely driven by global supply and demand; given rice is one of the most protected and sensitive global commodities in trade negotiations, thus limiting access to a number of key markets (indeed we were excluded in the South Korea FTA); given costs of production have risen to a point where the current $6.50 (loan rate)/$10.50 (target price) assistance triggers are largely irrelevant, we believe the first priority should be to concentrate on increasing the prices or revenue levels at which farm policy would trigger so that it is actually meaningful to producers, and would reliably trigger should prices decline sharply. (*See* ***Chart 3***)

The reference price for rice should be increased to $13.98/cwt ($6.30/bu). This level would more closely reflect the significant increases in production costs for rice. Ideally, this minimum could move upward over time should production costs also increase, this being of particular concern in the current regulatory environment. And this reference price should be a component of both a price-loss policy option and a revenue-loss policy option to ensure downside price protection.

The existing price trigger levels have simply not kept pace with the significant increases in production costs. It is for this reason that I believe strengthening U.S. farm policy would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

Options for Different Production Regions

We recognize that a one-size-fits-all approach to farm policy does not work effectively for all crops or even the same crop such as rice in different production regions. Using rice as an example, this is a crop grown in a fairly limited geographic area, yet there are distinctions between growing regions that make a difference in what policy will work best for rice.

In the Mid-South and Gulf Coast production regions, a price-based loss policy is viewed as being most effective in meeting the risk management needs of producers. Specifically, this policy should include a price protection level that is more relevant to current cost of production; paid on planted acres or percentage of planted acres; paid on more current yields; and take into account the lack of effective crop insurance policies for rice.

In the California production region, although the existing ACRE policy still does not provide effective risk management, efforts to analyze modifications which will increase its effectiveness continue. Since rice yields are highly correlated between the farm, county, crop reporting district, and state levels, we believe that a revenue plan should be administered for rice at either the county or crop reporting district level to reflect this situation rather than lowering guarantee levels to use farm level yields. Due to a host of differences in market prices, production costs, yields, marketing patterns, and uses, there is the potential for a properly designed revenue-based policy to work for rice growers in California, while I know that for my rice enterprise in Texas I need a price-based policy. Every crop has very different pricing and marketing options.

While I have focused on the need for a choice for rice producers in different regions, this also applies for producers of most other grains. I support having policy options available for all crops, and believe that both a price-based policy and a revenue-based policy should be offered as options.

My husband and I are not fortunate to farm in an area where we have the ability to rotate among several crops. Some production regions have that ability, but some do not and may be limited to just one or two crops that can be profitably produced. Because of this great diversity across American agriculture we need policy options that I can use to tailor the best risk management tools possible on my farm.

Future policies should be plain and bankable. The current ACRE program, while offering improved revenue-based protection, is complicated by requiring two loss triggers; providing payments nearly 2 years after a loss; and provides no minimum price protection—it is not bankable. The marketing loan and target prices are plain and bankable—unfortunately the trigger prices are no longer relevant to current costs and prices.

Farm policy must be defendable. We believe it makes sense to provide assistance when factors beyond the producer's control create losses for producers. We generally think more tailored farm policies are more defendable. For this reason, we like the thought of updating bases and yields or applying farm policies to planted acres/current production and their triggering based on prices or revenue, depending on the option a producer chooses. However, policy choices should not result in severe regional distortions in commodity policy budget baselines from which reauthorized commodity policies must be developed. In addition, care must be taken in order to ensure that producers who have utilized the flexibility of past farm bills are not disadvantaged in the construct of updating bases. We are particularly concerned with the effect this may have on small producers from the preliminary and incomplete data that we have seen.

Protection to withstand a multi-year low price scenario. Whether in a revenue-based plan, or a price-based plan, reference prices should protect producer income in a relevant way in the event of a series of low price years. Ideally, this minimum could move upward over time should production costs also increase, this being of particular concern in the current regulatory environment.

Whatever is done should not dictate or distort planting decisions. Direct payments were excellent in this regard. SURE or similar whole farm aggregations tend to discourage diversification, which could be a problem for crops like rice. Any commodity specific farm policy that is tied to planted acres must be designed with extreme care so as to not create payment scenarios that incentivize farmers to plant for a farm policy. Whatever is done should accommodate history and economics and allow for proportional reductions to the baseline among commodities. Some commodities are currently more reliant on countercyclical farm policies (ACRE/CCP) while others are receiving only Direct Payments in the baseline. Generally, the least disruptive and fairest way to achieve savings across commodities would be to apply a percentage reduction to each commodity baseline and restructure any new policy within the reduced baseline amounts.

There have been concerns raised about higher reference prices distorting planting decisions and resulting in significant acreage shifts including for rice. We are unaware of any analysis that shows significant acreage shifts resulting from the reference price levels included in the 2011 Farm Bill package. In fact, for rice specifically, a reference price of $13.98/cwt that is paid on historic CCP payment yields and on 85% of planted acres results in a reference price level well below our average cost of production, so I find it hard to imagine why someone would plant simply due to this policy given these levels.

As I have followed the current farm bill debate since last fall, I am amazed at some of the assertions about a price-based policy distorting planting decisions and resulting in large acreage shifts. The price levels that I understand were developed last year and how they were factored based on acreage and yield percentages would have meant they were well below our costs of production for all crops. This idea that maintaining a price-based policy is somehow distorting, and that a revenue-based policy that is based off historically high prices is non-distorting is misleading. In addition, it is incredibly naïve and inaccurate to believe that only reference prices/target prices in a countercyclical or similar policy have the ability to create planting distortions. Indeed, many of the planting shifts seen recently have resulted from pressures created by policies outside the farm bill—for example our energy policy. It is important to recognize that disproportionate regional distribution of farm programs benefits not only raise questions of equity, but also should be recognized as a portent for distortions in farm policy, particularly with regard to planting decisions. Commodities receiving a disproportionate share of benefits will entice producers to plant those crops.

Pay Limits/Eligibility Tests Should Be Eliminated

I strongly oppose any further reduction in the payment limit and adjusted gross income (AGI) levels provided under the current farm bill. One can understand the desire to limit former policies such as the direct payment policy. However, the disadvantages of payment limits must be acknowledged in the construct of any farm policy, particularly a countercyclical policy. Payment limits have the negative effect of penalizing viable commercial size, family farms the most when crop prices are the lowest and support is the most critical. To be a viable farm, we must use economies of scale to justify the large capital investment costs associated with farming today. It is essential that producers maintain eligibility for all production to the non-recourse loan. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice, cotton, and grain farms across the Sunbelt. The current payment limit and AGI provisions have created significant paperwork burdens and costs to producers to comply and remain in compliance. This is particularly true for family farms that have reorganized not to take advantage of any payment limit concerns, but to protect themselves against estate tax liability. As oppressive as the current limits are, at a minimum Congress should not make any further reductions or limits that further penalize commercially viable farms.

Farm policy should not be limited based on arbitrary dollar limits. Assistance should be tailored to the size of loss. A producer should not be precluded from participating in a farm policy because of past income experience. The Senate Agriculture Committee farm bill AGI test of $750,000 is an extraordinary reduction from current policy and can have a significant impact, particularly on tenant farmers who may be forced into cash rent situations due to the ineligibility of the landowner due to the further restrictive AGI rule.

The actively engaged payment eligibility requirements included Senate Agriculture Committee farm bill would tighten these rules even further to the point that individuals responsible for very vital functions in the farm, *i.e.,* marketing, could be deemed ineligible for farm policy. They contain the promise of a future mired in even more paperwork and accounting nightmares. They appear to be reforms foisted on unsuspecting producers by a leadership disconnected with the realities of everyday farming all in the name of program compliance. We would ask that you remember that many of these changes affect every single producer, not just those who may be in danger of approaching arbitrary payment limits or eligibility requirements. While we are still examining the effects of the changes, these highly technical proposals appear to change even the spousal eligibility rule. In short, we remain strongly concerned that the eligibility requirements and means tests would attempt to eliminate the way farms conduct their business.

Crop Insurance Should Be Improved

Risk management products offered under Federal Crop Insurance have been of very limited value to rice producers to date due to a number of factors, but primarily because the risks associated with rice production are unique from the risks of producing many other major crops. Indeed, it is quite ironic that the Senate in developing its crop insurance provisions recognizes the need to distinguish between irrigated and non-irrigated crops by having specific provisions to address the inequities that result in irrigated situations. Unfortunately, this recognition did not extend to their commodity policy proposal where they demand a one-size-fits-all policy.

For example, since rice is a flood-irrigated crop, drought conditions rarely result in significant yield losses as growers simply pump additional irrigation water to maintain moisture levels to achieve relatively stable yields. However, drought conditions do result in very substantial production cost increases as a result of pumping additional water.

Rice has traditionally been under-served by crop insurance and that is still largely the case today. (*See* ***Chart 4***) As a result, we have on average lower coverage levels and, in some cases, higher premium costs for rice.

I think it is inappropriate to believe that crop insurance can ever be the sole policy producers rely on for risk management. Crop insurance is designed to cover production shortfalls or price declines in a single year. It is not designed to protect against price declines over multiple years. And I find myself asking the question, and let me be clear I hope we don't see this happen, but if crop prices decline again in a scenario like we saw in the late 1990's how effective is crop insurance going to be then? If prices drop to those levels again it is clear that a crop insurance revenue policy is not going to be of much help to me as a producer with prices at these levels.

From a rice grower's perspective I have additional concerns about crop insurance. The risk management products offered under Federal Crop Insurance have been of very limited value due to a number of factors, including artificially depressed actual production history (APH) guarantees, which I understand is also a problem for many other producers; high premium costs for a relatively small insurance guarantee; a lack of convergence between the cash and futures prices for rice; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops. What rice farmers like I need from Federal crop insurance are products that will help protect against increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

In this vein, many in the rice industry have been working for over the past 4 years now to develop a new generation of crop insurance product that might provide more meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. The objective was to gain approval from the Risk Management Agency (RMA) of at least two new products that could be available to growers in time for the 2012 crop year, but this has not materialized. We are still working on this effort, and hope to have a policy available for the 2013 crop. As with any new policy, there will be issues to work through so it is unrealistic to think rice can rely heavily on crop insurance for its risk management needs in the near future. But, it is important to stress that even if these products had become available this year, we do not believe that they would have put rice producers anywhere near on par with other crops in terms of the relevance that crop insurance has as a risk management tool.

To further reinforce this, the new Supplemental Coverage Option (SCO) crop insurance provision included in the Senate farm bill may hold some value for rice producers in better utilizing crop insurance. However, we are again hearing from RMA that due to data availability there is uncertainty as to how broadly this policy can be offered for rice, and even when it can be made available.

As such, rice producers enter the 2012 Farm Bill debate at a very serious disadvantage, having only a single farm policy that effectively works and that farm policy being singled out for elimination.

We also support improvement to the product development processes. In no case should the crop insurance tools, which are purchased by the producer, be encumbered with environmental/conservation regulation or other conditions that fall outside the scope of insurance.

Commodity Futures Market

Another risk management tool that is becoming more important for all producers is the use of the commodity futures market to hedge price risks for the crops produced. As we see the coming changes in the farm bill, I think the ability to effectively use the futures market to price and market our crop will become imperative. Today growers have the ability to easily hedge corn, soybeans, and wheat, but with rice I am limited in the opportunity to hedge the crop due to issues with the rice futures contract. The contract has suffered from a lack of convergence between cash prices and the futures prices, and in some cases there has been a negative basis as wide as $4/cwt. While some of the price risk for other crops can be hedged, for the rice we grow, I am unable to do so on par with these other crops.

2011 Budget Control Act Efforts

Although the details of the 2011 Farm Bill package that was prepared by the House and Senate Agriculture Committees in response to the Budget Control Act were not fully disclosed, based on discussions and reports we believe that that package at least represents a good framework on which to build the 2012 Farm Bill. The 2011 package included a choice of risk management tools that producers can tailor to the risks on their own farms, providing under each of those options more meaningful price protection that is actually relevant to today's production costs and prices. It also included provisions to improve crop insurance and expedite product development for under-served crops such as rice.

The U.S. rice industry very much appreciates the Members and staff who put enormous time and effort into what we believe represents a good blue print for ongoing farm bill deliberations and we thank you.

Conclusion

Again, thank you for this opportunity to offer my testimony. We certainly look forward to working with you as the 2012 Farm Bill process moves forward. I would be happy to respond to any questions that you might have.

CHARTS

Chart 1
Rice Budget Baseline
Billion $

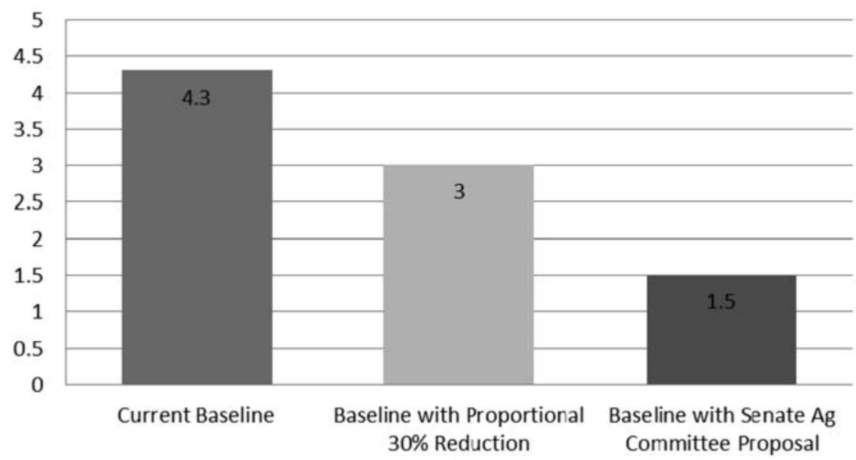


Chart 2—Rice ARC Example
ARC Coverage

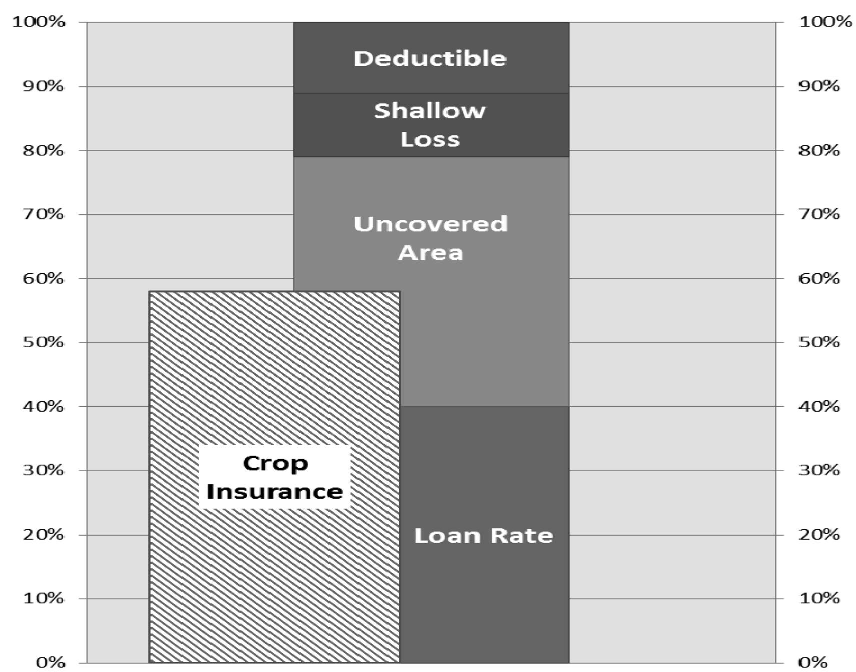


Chart 3—Yields *vs.* Price Risk by Crop
Relative Risk Profile

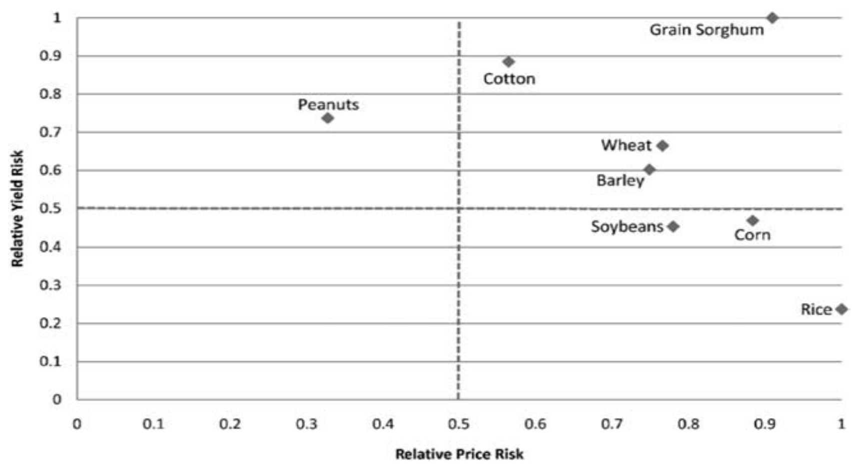
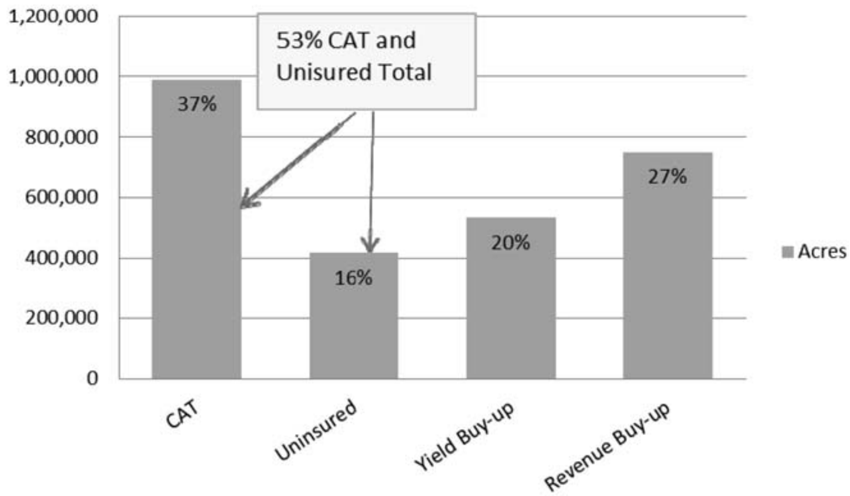


Chart 4
Rice Insurance by Type



The CHAIRMAN. Mrs. Raun, thank you.
Mr. Stallman for 5 minutes.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION; RICE AND CATTLE PRODUCER, COLUMBUS, TX

Mr. STALLMAN. Chairman Conaway, Ranking Member Boswell, and Members of the Committee, thank you for the opportunity to share the views of the American Farm Bureau Federation regarding the development of our new farm bill.

While some take a simple view of the current agricultural economy and conclude farmers do not need a safety net, we all know that current market prices will not continue for some commodities. The challenge we all face is how to draft a farm program that provides a strong, consistently viable safety net that protects farmers against crippling revenue declines, whether caused by falling markets or Mother Nature, while at the same time remaining cognizant of budget deficit challenges and changing public sentiment.

To help meet this challenge, the Farm Bureau proposes the following principles be considered when writing the 2012 Farm Bill. Any farm bill must be a fiscally responsible package that meets spending reduction targets and assures taxpayers that America's farmers are making wise use of our tax dollars. Continuation of a multi-legged stool remains the best approach for providing a fair and effective safety net, which should consist of a strong crop insurance program, continuation of the current marketing loan provisions, and a catastrophic revenue loss program. Marketing loans and crop insurance provide individual risk protection at the farm level. Directing the third leg toward protecting area-wide risk coverage at the county or crop reporting district protects against deep losses while minimizing the potential for moral hazard, and at the same time decreasing administrative costs.

A deep loss program such as what we have suggested would not provide producers with payments as often as other proposals contemplated. It would provide more coverage in times of catastrophic losses when assistance is most critical. Because the deep loss program would take some of the risk off the table for crop insurance providers, individual policies would be re-rated with crop insurance policy premiums paid by farmers decreasing by 9 to 23 percent per year every year regardless of the payout under the deep loss program.

As a general farm organization, we place high priority on ensuring the new farm bill benefits all American agricultural commodity sectors in a balanced, coordinated manner. To highlight this, our proposal would include coverage for five fruits and vegetables: apples, tomatoes, grapes, potatoes and sweet corn. Conceptually, our proposal can cover all specialty crops that have crop insurance available but we thought it best to learn to walk before we run.

The new farm bill must ensure that producers continue to take production signals from the marketplace rather than incentivizing them to chase Federal program benefits. Approaches that allow producers to pick and choose between various program options would impose severe challenges on U.S. lawmakers to ensure that one option does not provide more government benefits than the next, thus driving production decisions.

The new farm bill should not allow the benefits from the various safety net components to overlap. This is why our concept requires that any payment received from the deep loss area coverage offset any corresponding indemnity received under an individual crop insurance policy.

The new farm bill should protect producers from deep loss events that typically are beyond any producer's control. Our concept's benefits would come into play only when they are needed rather than being an expected annual supplement to farm income, and it would eliminate the need for *ad hoc* disaster programs. There should be no changes to current farm bill payment limitations or means testing provisions. Conservation compliance should not be required as a condition for purchase of crop insurance, and the new farm bill should include the concept of Representative Peterson's bill to reform and improve the dairy program.

We recognize developing a new farm bill requires flexibility from all participants in order to achieve these principles. Given the difficulties inherent in this debate, our board did indicate an openness to discussing an approach that would combine the current crop insurance and marketing loan programs with a supplemental area insurance program that sits on top of individual crop insurance coverage. But I want to be clear that we do have a number of concerns about this type of approach.

To summarize and close, our deep loss proposal is one leg of a three-legged safety net that includes existing crop insurance and marketing loan programs. It protects farmers from deep systemic risk from weather or markets and thus eliminates the need for *ad hoc* disaster assistance. It provides crop insurance premium reductions of 9 to 23 percent each and every year in addition to any indemnity payments. It would deliver policies through private crop insurance providers with payments occurring at the same time as other indemnity payments. It does not allow overlap of payments with individual insurance loss payments, and it provides coverage beyond program crops to specialty crops. It would likely be notified in the green box non-trade distorting category under the rules of the WTO, and it is a fiscally responsible package that providers taxpayers and America's farmers with the maximum bang for the buck.

Thank you for the opportunity to present our views. We look forward to working with this Committee to craft a new bill that meets the future needs of America's farmers and ranchers.

[The prepared statement of Mr. Stallman follows:]

Prepared Statement of Bob Stallman, President, American Farm Bureau Federation; Rice and Cattle Producer, Columbus, TX

My name is Bob Stallman. I am President of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. Farm Bureau is the nation's largest farm organization, representing producers of virtually every commodity, in every state of the nation as well as Puerto Rico. We represent more than six million member families.

I would like to thank Chairman Conaway and Ranking Member Boswell for holding this hearing and inviting me to testify. The farm bill touches the lives of every agricultural producer in this country. It was a long, hard road to passage of the 2008 Farm Bill, and thanks to the hard work of the House and Senate Agriculture

Committees, the end product was a fiscally responsible compromise that served this nation's farmers well.

We all face many challenges in writing the 2012 Farm Bill, with the budget deficit at the top of the list. The baseline for many farm bill programs has decreased since passage of the last farm bill. Thirty-seven programs included in the last bill do not have a baseline because of tough choices made when it was created. The renegotiation of the Standard Reinsurance Agreement reduced the baseline even further, without any consideration to capture those savings. It is an extremely challenging environment in which to draft a bill that provides an adequate safety net, and we look forward to working with the Committee to ensure the final product is a fiscally-responsible package that provides taxpayers and America's farmers with the maximum bang for their buck.

Farm Bureau's testimony is based on the premise that the Committee will draft farm legislation that reduces spending by $23 billion over the next 10 years as was suggested to the Joint Committee on Deficit Reduction by the Chairs and Ranking Members of the House and Senate Agriculture Committees. In addition, we assume the same proportional cuts will be enacted—$15 billion in commodity program reductions, $4 billion in conservation program reductions and $4 billion in nutrition program reductions. Farm Bureau is pleased the Senate Committee on Agriculture, Nutrition and Forestry maintained the $23 billion in savings suggested last fall as the Committee's reduction target in the bill passed last month.

Beyond the budget reductions, Farm Bureau also prioritized (1) protecting and strengthening the Federal crop insurance funding and not reducing funding for that program; (2) developing a commodity title that encourages producers to follow market signals rather than making planting decisions in anticipation of government payments; and (3) refraining from basing any program on cost of production.

As a general farm organization, we place high priority on ensuring the bill benefits all agricultural commodity sectors in a balanced, coordinated manner. While some interested parties can push Congress to allocate more funding for programs that benefit only their producers without worrying about the impact of that funding shift on other commodities, Farm Bureau does not have that luxury and will seek balance among all producers' interests.

While the bill passed by the Senate Agriculture Committee addresses many of our policy priorities, we believe several adjustments and refinements should be made to improve the legislation. We do not believe the Senate Agriculture Committee passed bill provides equity across all commodities. The variety of program options continues to raise concerns that some programs will cause planting decisions based on farm program benefits that accrue more beneficially to a particular crop.

We are also concerned that the net effect of the "Agriculture Risk Coverage (ARC) Eligible Acres" provisions does not ensure a true "planted acres" approach and may effectively recreate the "base acres" issues that have given rise to equity and planting distortion concerns. While we support the requirements in the Senate Agriculture Committee passed bill to eliminate "double dipping" between ARC or Stacked Income Protection Plan (STAX) and crop insurance, we still have concerns regarding the potential for a 90 percent farm level coverage being so high as to induce fraud or abuse. We do not believe the Federal Government should be covering low-level losses that could be managed through the normal course of business.

Last, Farm Bureau's member-established policy opposes payment limits and means testing of farm program benefits in general. As such, we also oppose the Senate Committee's proposed changes to make the current law's payment limit and Adjusted Gross Income (AGI) provisions even more restrictive.

Fundamentally, Farm Bureau continues to support a single program option for the commodity title that extends to all crops. We believe the safety net should be comprised of a strong crop insurance program, with continuation of the marketing loan program and a catastrophic revenue loss program based on county level losses for each crop. We are confident our approach can be easily tailored to meet the Committee's goals to provide a safety net that meets regional and commodity differences, while also meeting the established savings target.

We would like to specifically highlight two provisions of the Senate Agriculture Committee bill we hope you will incorporate in the House Agriculture Committee draft. The first is inclusion of the Supplemental Coverage Option (SCO) whereby program crop producers, as well as producers of specialty crops, could purchase a county-level revenue policy on top of their individual crop insurance coverage to cover all or part of a producer's deductible portion of their individual insurance policy. Importantly, this program insures against area-wide losses rather than individual losses. This approach alleviates broad risk without undercutting an individual producer's skill to competitively manage farm level risk.

The second is a restoration of the critical non-program crop disaster programs, such as the Livestock Indemnity Program, Livestock Forage Program and the Tree Assistance Program, to provide those producers with some basic risk management tools to help address catastrophic losses.

Farm Policy Proposal

While Farm Bureau believes a single program option should be extended to all crops, the program needs to include the continuation of a multi-legged stool approach to provide a fair, flexible and effective safety net. Two legs of that stool should consist of a strong crop insurance program and continuation of the marketing loan program with modifications to better reflect market conditions. Marketing loans and the crop insurance program provide protection at the individual farm level.

We believe the third leg of the stool should provide catastrophic revenue loss protection at the county level, or at the crop reporting district level if county level data is unavailable, rather than the farm level. This approach not only protects against catastrophic area-wide losses, it also will go a long way toward addressing moral hazard concerns and keeping administrative costs down.

These deep loss events that would endanger the financial survivability of the farm are typically beyond any producer's control, and, in the past, have prompted enactment of *ad hoc* disaster programs. Our plan focuses on protecting farmers from these situations and brings program benefits into play only when they are needed, rather than being considered a supplemental source of annual income.

Under our plan, each producer of a program crop, as well as producers of apples, potatoes, tomatoes, grapes and sweet corn, would be provided a coverage level equal to 75 percent of the last 5 years' Olympic average revenue. This would be provided for the same fee charged for catastrophic crop insurance—$300 per commodity per county. Farmers can then supplement that coverage with one of the current crop insurance programs based on their own assessment of their farm's risk management needs.

There has been some recent criticism of farm program designs, such as this one, that incorporate a moving average guarantee for revenue or price. The concern is that if a price decline persists for a number of years, the guarantee may fall to an unacceptably low level. The solution to this situation, it is argued, is to establish fixed support prices. We do not support that approach. We have seen too many times in the past when fixed support prices discouraged adjustments to production that would have allowed markets to recover and instead contributed to chronically low market prices. A moving average guarantee allows farmers time to adjust to a changing market while still allowing market signals to direct production decisions.

While our proposal is a deep loss program and would not provide producers with payments as often as other proposals contemplated, it would provide more coverage in times of catastrophic losses when assistance is most critical. In addition, because the deep loss program would take some of the risk off of the table, individual policies would be rerated. Our economic analysis shows a producer would receive crop insurance for 9 to 22 percent less per year than they are currently paying—that is money that stays in his or her pocket—and it is a benefit that a producer would see every year regardless of a payout under the deep loss program.

The following table shows premium reductions per commodity and the amount of likely payout on an annual basis.

Farm Bureau's Deep Loss Program Impacts for the U.S.
(Premium Reduction based on 75% revenue protection)

	Average Payment/Acre	Average Premium Reduction
Corn	$11.60	8.7%
Sorghum	$11.63	8.8%
Cotton	$22.10	10.0%
Soybeans	$7.97	10.8%
Wheat	$9.17	14.8%
Rice	$38.63	23.1%

Payments under this program would be made on actual planted acres. While past transfer-type payments on planted acres have been problematic from a WTO standpoint, this program would be a true insurance program. As such, it only makes sense for farmers to be able to insure what they are actually planting—not some far out-of-date average of what has been planted in the past. It is our opinion that payments under this program, the bulk of payments anyway, would likely qualify to be notified in the green box non-trade distorting category when the Doha negotiations are completed. Under the rules of the WTO, up to 70 percent of such payments qualify for that designation, so only the last five percent would need to be notified as non-product-specific amber box.

Following is an example of how the deep loss plan works with an individual crop insurance policy wrap:

Assume a corn farm located in a county with the following 5 year county average yields and harvest prices.

	Yield (bu/ac)	Price ($/bu)
Year 1	193	$4.00
Year 2	187	$4.95
Year 3	180	$4.50
Year 4	168	$6.00
Year 5	172	$5.50
5-Year Olympic Average	180	$4.98

The 5 year Olympic average revenue for this county is 180 bushels times $4.98 = $894.

A 75 percent county-level revenue guarantee results in payments when county revenue falls below $670 (75 percent of $894). The revenue decline could be due to a decline in prices, county yields, or both.

Assume the individual farm has an actual production history (APH) yield for corn of 185 bushels per acre. For the current crop year, the projected corn price for crop insurance purposes is $5.00 per bushel. The expected farm revenue is 185 bushels per acre times $5.00 = $925 per acre.

A 75 percent revenue protection crop insurance policy would provide an insurance guarantee of $925 × 75% = $694 per acre.

The following tables show calculated program payments for a number of price/county yield outcomes and calculated crop insurance indemnities for a number of price/farm yield outcomes:

It is important to keep in mind that the deep loss program is based on county yields while the individual crop insurance policy wrap is based on farm yields. It is also critical to note that the Farm Bureau deep loss program does not allow for deep loss program payments and individual insurance loss payments to overlap. Any payment received from the deep loss program would offset any indemnity occurring under the individual crop insurance policy. Following is an example of this point.

	Deep Loss Payment						**Revenue Insurance Indemnity**				
	Harvest Price						Harvest Price				
	$4.00	$4.25	$4.50	$4.75	$5.00		$4.00	$4.25	$4.50	$4.75	$5.00
125	$170.41	$139.16	$107.91	$76.66	$45.41	134	$157.75	$124.25	$90.75	$57.25	$23.75
130	$150.41	$117.91	$85.41	$52.91	$20.41	135	$153.75	$120.00	$86.25	$52.50	$18.75
135	$130.41	$96 66	$62.91	$29.16	$—	140	$133.75	$98.75	$63.75	$28.75	$—
140	$110.41	$75.41	$40.41	$5.41	$—	145	$113.75	$77.50	$41.25	$5.00	$—
145	$90.41	$54.16	$17.91	$—	$—	150	$93.75	$56.25	$18.75	$—	$—
150	$70.41	$32.91	$—	$—	$—	155	$73.75	$35.00	$—	$—	$—
155	$50.41	$11.66	$—	$—	$—	160	$53.75	$13.75	$—	$—	$—
160	$30.41	$—	$—	$—	$—	165	$33.75	$—	$—	$—	$—
165	$10.41	$—	$—	$—	$—	170	$13.75	$—	$—	$—	$—
170	$—	$—	$—	$—	$—	175	$—	$—	$—	$—	$—
175	$—	$—	$—	$—	$—	180	$—	$—	$—	$—	$—
180	$—	$—	$—	$—	$—	185	$—	$—	$—	$—	$—

Assume the harvest price is $4.25 per bushel, county yield is 150 bushels per acre, and farm yield is 155 bushels per acre. This farmer would be eligible to receive a crop insurance payment as soon as is currently possible for the $35.00 per acre *revenue insurance* indemnity.

In addition, because the county-based *deep loss* coverage also triggered, the crop insurance company would receive a reimbursement of $32.91 per acre for the previously-paid indemnity, and the producer would receive the balance.

So even though the farmer would have received a reduction in premium rates, he or she would have the same coverage and timing of crop insurance payments as they do today.

If a producer suffered an indemnity-triggering individual loss without a county loss, the full calculated indemnity would be received by the farmer. For example, assume a $4.25 price, a 160 bushel per acre county yield and a 150 bushel per acre farm yield. The producer would receive an indemnity of $56.25 per acre from their individual insurance coverage.

If a producer suffered a payment-triggering county loss without an individual loss, the farmer would receive the program payment only. For example, assume a $4.25 harvest price, 155 bushel per acre county yield and 165 bushel per acre farm yield. The producer would receive a program payment of $11.66 per acre.

Because our deep loss plan is based on the crop insurance program, we also believe some enhancements should be made to the current program. We note the high level of participation in the enterprise unit program following the pilot program that increased the premium subsidy available to that program. We strongly urge the enterprise unit program be permanently extended and that separate enterprise units be offered on irrigated and non-irrigated acreage.

We also support looking at alternatives to rectify the declining Actual Production History (APH) issue. If direct payments are eliminated, crop insurance becomes the major safety net and it simply does not work when a farmer experiences several consecutive disaster years. We support re-evaluating the yield plugs used in disaster years, as well as the county T-yield.

Last October, at our request, House Agriculture Committee Chairman Frank Lucas (R-Okla.) submitted our deep loss proposal to the Congressional Budget Office (CBO) to be scored. After receiving some numbers from the Congressional Budget Office recently for a 70 percent program, we now believe it is possible to provide support at the 80 percent revenue level of coverage for all program crops and the five fruits and vegetables. In addition, we believe there would be enough money to increase the coverage for those participating in the Noninsured Assistance Program (NAP) from 50 percent loss coverage to 70 percent. This would save $15 billion from the commodity title to apply towards budget deficit reduction. To be clear, this is based on the premise of utilizing the savings realized by eliminating authority for the direct payment program, the countercyclical program, Supplemental Revenue Assistance Payments (SURE) and Average Crop Revenue Election (ACRE) provisions, as has been indicated by Members of the Committee.

We continue to believe that our deep loss concept is the best farm policy option, particularly in light of the budget realities that face the writing of a new farm bill. We believe it may even become a more viable choice down the road once all the numbers are in.

The principles we will seek in any final outcome include:

- Basing the safety net on planted rather than base acres;
- Delivering the program through private crop insurance companies;
- No payment limitation in effect;
- Equitable treatment of all commodities by offering this to program crop commodities and to fruit and vegetables that have crop insurance coverage;
- Being easy for farmers to understand and for USDA to administer;
- Being scalable to meet budget requirements; and
- Keeping delivery and administrative costs low.

Payment Limitations/Means Testing

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. Simply stated, payment limits bite hardest when commodity prices are lowest. Our Federal farm program, even one focused on deep losses, is based on production. Time and time again, this has proved to be the best manner for distributing assistance to those most responsible for producing the nation's food and fiber. Farmers who produce more take more risk, have higher investments and face more losses in down years. To be viable, we must recognize realistic economies of scale to justify the large capital investment costs associated with farming.

Conservation Compliance

With the elimination of direct payments and other farm support programs, some have called for extending conservation compliance to crop insurance programs. We are adamantly opposed to this and believe crop insurance is vital to a farmer's risk management strategy and must not come with government strings attached. When farmers make their annual crop insurance decisions, the only option is the Federal Crop Insurance Program—which could be denied as a result of a single unforeseen event if compliance is attached to it.

Consider the situation where a huge rainstorm causes a gulley to appear in a farmer's no-till field overnight. The right thing to do is repair it quickly to minimize further degradation. But doing so requires prior approval from the Natural Resources Conservation Service (NRCS), which is often a 2 or 3 day process. Farmers know that even 2 or 3 days can make the difference between making the planting window and missing it. If a producer didn't have permission to repair the gulley prior to planting, he or she would be out of compliance and denied eligibility for crop insurance under the approved conservation plan. This is just one example of the difficulties that would be experienced if compliance was required for crop insurance.

Dairy

Farm Bureau supports Rep. Collin Peterson's (D-Minn.) bill to eliminate the dairy price support program and the Milk Income Loss Contract program and to use the funding associated with those programs to offer a voluntary gross margin insurance program for dairy producers.

Research

Farm Bureau opposes any cuts to research funding. We recognize the key role that agricultural research plays in making and keeping the farm sector competitive, profitable and responsive to the country's changing food, feed and fiber needs. However, with research costs rising faster than funding, USDA will have to increase its efforts to prioritize research. We encourage Congress to call for the establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry—to help specialty crop producers offset problems in securing a labor force sufficient to handle peak production stages. This growing problem makes this type of research imperative.

Nutrition

The School Fruit and Vegetable Snack Program should be expanded as it will promote healthy eating habits among children and provide increased market opportunities for fruit and vegetable producers.

Specialty Crops

The State Block Grants for Specialty Crops program should be continued and expanded if possible.

Sugar

Farm Bureau supports maintaining the current sugar program.

Conservation

We support the farm bill's conservation programs. The 2008 Farm Bill is the "greenest" farm bill in history in terms of providing conservation benefits that assist producers in their environmental enhancement efforts. However, with conservation programs also under budget pressure and projected over the next 10 years to cost even more than the commodity programs, we recommend prioritizing "working lands" programs over land retirement programs.

We support provisions in the draft bill that reduce the number of conservation programs from 23 to 13. Fewer programs will be simpler and less expensive to administer, as well as less confusing for producers. If funding for conservation has to be reduced, we prefer it to come from administrative savings rather than out of the pockets of producers.

The most popular conservation program has been the Environmental Quality Incentives Program. It provides landowners the planning and resources they need to conduct a myriad of conservation practices that help preserve soil and water and enhance wildlife. Importantly, it also provides them resources to deal with increasing regulatory requirements.

Farm Bureau supports reducing the number of acres eligible for enrollment in the Conservation Reserve Program (CRP) as a way to reduce funding. We believe this should be undertaken gradually as Tier 1 and Tier 2 land currently enrolled in CRP contracts expire. That land should not be allowed to be enrolled in the program in the future.

Rural Development

Farm Bureau supports the United States Department of Agriculture developing, funding and improving programs that enhance the lives of rural Americans and foster development of robust rural communities. America's farmers and ranchers need viable rural communities able to supply the services needed to support their families and agricultural operations. Congress and the Administration should seek ways to stimulate rural jobs and economic growth within rural communities.

As USDA encounters budget limitations, it is vital for USDA Rural Development to find innovative solutions to the issues facing rural America. Farm Bureau supports USDA implementing a regional approach to give its rural development programs greater flexibility in promoting and leveraging innovation in rural regions across the country. These regional partnerships, whether the efforts of just two communities in one county or a multi-county or multi-state effort, depend on a flexible statutory definition of a "region" to encompass the multiple ways that rural citizens and their communities partner.

Farm Bureau supports rural development programs that help farmers and ranchers and the communities where they live capture more of the profit and jobs generated from the commodities they produce.

In conclusion, we appreciate the hard work of this Committee to ensure that America's farmers and ranchers have a practical safety net that provides protection against the vagaries of the market and weather and allows our farmers to continue to produce the safest, most abundant, and least expensive food supply in the world. We look forward to working with you toward that goal. It is vitally important that Congress complete a farm bill this year and Farm Bureau we will do everything we can to assist you in this effort. Thank you for considering our views.

The CHAIRMAN. Thank you, Mr. Stallman.

Dee Vaughan, 5 minutes.

STATEMENT OF DEE VAUGHAN, PRESIDENT, SOUTHWEST COUNCIL OF AGRIBUSINESS, DUMAS, TX

Mr. VAUGHAN. Chairman Conaway, Ranking Member Boswell, Members of the Subcommittee, thank you for inviting me to testify today. My name is Dee Vaughan and I am a corn, soybean, wheat, cotton and sorghum farmer from Dumas in the northern Texas Panhandle. I am also the President of the Southwest Council of Agribusiness, a coalition of commodity groups, lending institutions and Main Street businesses located in Texas, Oklahoma, Kansas, New Mexico and Colorado.

Given the diversity of those we represent, we appreciate all that Chairman Lucas, Representative Peterson as well as the leaders and Members of this Subcommittee have done to ensure the 2012 Farm Bill is equitable and works for all producers in all parts of the country. In particular, I want to express the council's gratitude for the work you did last fall in putting a deficit reduction package together that would have accomplished this important goal.

Last fall, the council offered some policy principles, and these are expanded more in my written testimony, but briefly, first, the farm bill should provide meaningful price protection. Second, the farm bill should be equitable to all crops, producers and regions. Third, the farm bill should kick in only when it is needed. Fourth, the farm bill should do no harm to crop insurance. Fifth, the farm bill should not drive planting intentions. And sixth, the farm bill should not reopen payments limits unless it is to repeal them.

The passage of the Senate Agriculture Committee's farm bill and particularly the ARC plan has brought these issues into clearer focus. We commend the Senate Agriculture Committee's passage of a bill and now offer the House Agriculture Committee vitally important ways to improve the final bill.

Neither of the two revenue programs in the Senate bill offers meaningful price protection for any producer. I will tell you the thing that worries me most as a producer and what worries the business and lending members of our council is the threat of sustained lower prices over a long period of time. I will call your attention to the chart in my written testimony that shows how and when ARC would have kicked in on my farm from 1996 through 2011. We also show on that chart in there how the ribbon of shallow loss protection provided by ARC would fare if prices were to decline by 44 percent over 4 years as they did in 1996 through 2000. This is not an adequate safety net. From my organization's perspective, the farm bill simply must provide assistance when forces beyond the farmer's control take prices down. This is fundamental.

Another major issue with ARC is its recoupling or telling farmers that they must plant the crop to receive benefits. This is a dramatic retreat in farm policy and will cause planting distortions among commodities. For producers, there will be a pull toward planting those crops that are being protected or better protected by revenue coverage. Producers will know their revenue protection levels by crop and will tend to plant the crop that has the best revenue guarantee.

Another major concern is that ARC replicates crop insurance. Crop insurance has proved its ability to cover crop losses. It also covers losses from in-season price declines for most commodities, peanuts being an exception. The one risk that crop insurance does not cover is sustained lower prices. Again, this is the risk that the farm bill should be covering. If producers need to cover the shallow losses associated with the deductible portion, that portion not covered by crop insurance, the fiscally responsible method will be to provide real price protection through the farm bill, and then also provide the supplemental coverage option under crop insurance. This approach ensures crop insurance is not harmed, that farmers have skin in the game, and price-based protection triggers only when the need is real. This seems to be a natural progression from the good work by the Committee last fall. It is fair to all producers, it is fair to the taxpayers, it is defensible.

To address the concern of planting distortions, I suggest using historical bases that are updated. In addition to minimizing planting distortion, historical bases ensure we maintain the planning flexibility that was created under the 1996 Farm Bill, and they are also WTO friendly.

Finally, on the issue of payment limits, I would just point out that the Senate bill payment limit of $50,000 is actually $5,000 less than the first payment limit enacted in the Agricultural Act of 1970. This payment limit as well as the Senate bill's new actively engaged rules will severely impact the ability of the farm bill to provide a solid policy foundation for the production of food and fiber in this country.

Thank you for this opportunity to testify.

[The prepared statement of Mr. Vaughan follows:]

PREPARED STATEMENT OF DEE VAUGHAN, PRESIDENT, SOUTHWEST COUNCIL OF AGRIBUSINESS, DUMAS, TX

Mr. Chairman, Ranking Member Boswell, Members of the Committee, thank you for holding this hearing, and the important work you are doing to craft a good farm bill.

My name is Dee Vaughan and I farm in the northern Panhandle of Texas. I grow several of the major row crops—chiefly corn, cotton, sorghum, wheat and soybeans.

I have been fortunate to serve in leadership with several farm organizations in the past, but am honored to appear before you today as President of the Southwest

Council of Agribusiness, which has members in Texas, New Mexico, Oklahoma, Colorado, and Kansas. Our diverse coalition brings together 17 regional producer groups of cotton, corn, wheat, grain sorghum, rice, peanuts and cattle feeders; more than 30 lending institutions including both banks and farm credits; and more than 70 main street businesses.

The SWCA is unique in that it is focused solely on agricultural policy and its impact on the overall economy of this region.

Our business members—from farm implement dealers, to auto dealers, to irrigation companies, fuel suppliers and grocers—know that the foundation of their economy are we, the producers, who spend billions each year in our region alone to produce the crops and livestock that feed our nation and the world.

Our lenders join the cause because they see first hand how important good farm policy is to give their borrowers confidence to take risks in the dynamic and exceptionally volatile business of agriculture. They know the farmers and cattlemen and have seen their financial standing demolished by adverse weather and brutal world markets—through no fault of their own.

This is not my first time to appear before this Committee in the context of this farm bill, but it is the first time since the Senate Agriculture Committee marked up their bill so that we have something to analyze. I strongly commend Chairwoman Stabenow for getting out there and leading the Committee and the farm bill forward. But we are also grateful it is still early in the process, as the package needs improvement.

The SWCA has been consistent in advocating for six core principles for the farm bill, and so I will spend the rest of my time today talking about our recommendations for your Committee in relation to the Senate package and those key principles.

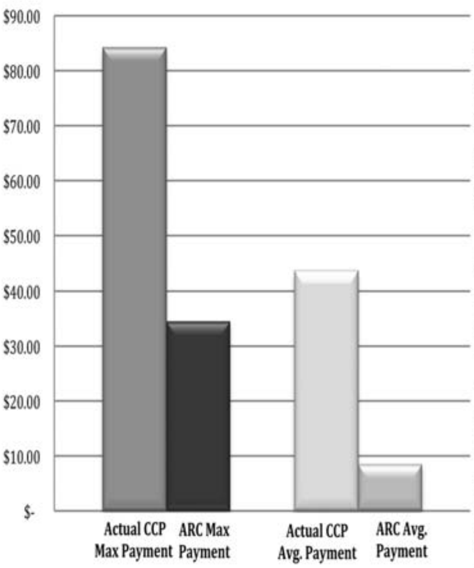
Our **first principle** centers on having a program that works—meaning it kicks in when needed—and the hope of avoiding unwanted market distortions.

Unfortunately we find the Senate ARC program lacking in both respects.

I hope everyone appreciates just how much we as farmers are being asked to give up in this process. The following chart illustrates maximum and average Title I assistance provided on the corn land I farm since 1996.

> ***P1: Any countercyclical element of farm policy*** *that would replace the current countercyclical program, direct payments, SURE, and ACRE, in whole or in part,* ***must effectively work for all staple commodities and producers.*** *The policy should provide reliable protection by commodity, but should be carefully designed to* ***not distort planting decisions.***

Corn Payment Per Acre 1996–2011
Actual *vs.* ARC

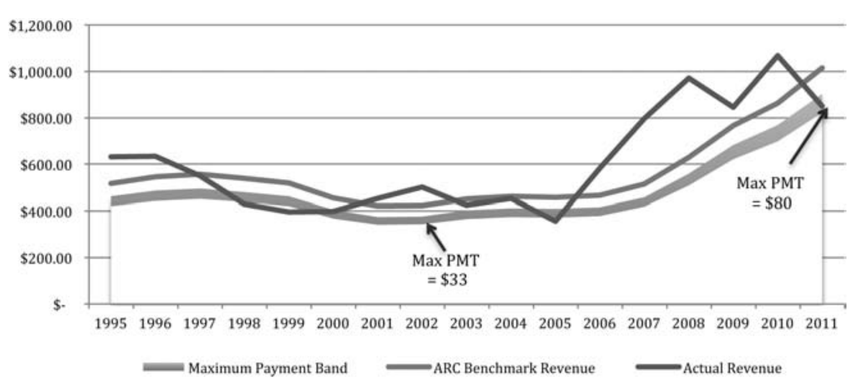


From that time until now, I have used Direct Payments and Target Price based countercyclical (included in the 2002 Farm Bill to replace *ad hoc* "market-loss assistance" or double AMTA's as we called them at the time) to weather storms and leverage needed investments on my farm. Next to the actual, it shows what my farm would have received under the 6.5% moving band of coverage called ARC. The difference is staggering, and I can tell you without hesitation that I would not be here as a farmer today had ARC been our policy in that time.

Why is it such a stark difference? There are a number of factors, but fundamentally it is because ARC is not designed to provide a safety net in times of deep loss; but rather it is designed to just provide a little boost (up to a 6.5% of expected revenue) when expected revenue falls off slightly (more than 11% from the 5 year average).

The red ribbon in the chart below represents the area of potential coverage under ARC. Note how the ribbon moves with the 5 year average such that the "safety net" provided is actually richer in good years than after a couple of bad years (this seems like it is working opposite of the way it should be to me). Nevertheless, ARC would have triggered on my farm five times out of the last 15 years, including this past year 2011 (this was due to the epic drought and yield losses). In reality under the current set of policies, the market loss or countercyclical portions of the current safety net provided assistance in 7 of those same 15 years (not triggering in 2011), and from my vantage point provided more meaningful and tailored assistance than ARC would have.

On-Farm Revenue Protection Under ARC

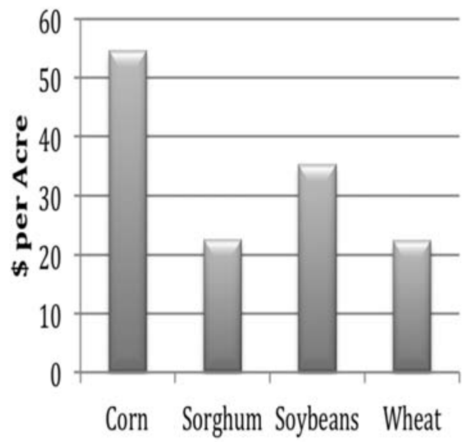


Some might critique this analysis by saying the past is irrelevant. But from my standpoint, it is a more trustworthy guide than all the economic modelers in the world. The fact is none of us knows what is going to happen in the future. The SWCA understands this, and while we all might be tempted by fancy shallow loss offerings that could pay out even if times remain relatively good, what our organization has decided we really need is a safety net that will only pay out if times get really hard again.

Our concern with **unwanted planting/market distortions** with ARC flows from the fact that the red ribbon illustrated above is wider (richer) and more apt to trigger (higher) for some crops than others.

The chart to the side shows the maximum safety net for the main program crops based on 8% (the county ARC election factor) of the 5 year national Olympic Average revenue for each crop. ARC is essentially free insurance of a sort. Our fear is that when given free insurance, you don't necessarily pick the one that is most suited to your needs. Rather, you pick the one that is most likely to pay and has the highest potential payout. Under ARC, I would get to make this decision each year when I decide what to plant.

Maximum Payment Under ARC



These are serious issues with big potential repercussions. Abandoning the decoupled base, which is the essential and positive element of "Freedom to Farm," does not just have WTO implications, but will impact producers' planting decisions. This is why the SWCA—though very supportive of the farm bill process generally—signed onto a letter asking that the Senate Agriculture Committee slow down. We would urge you to take your time on this one as well and make sure to find the right balance.

P2: Any cuts made to title I of the farm bill should be applied to the respective commodities on a proportional basis.

The SWCA's **second principle** focuses on equity among commodities and among regions in terms of the baseline.

This is not about keeping an outdated program—old program bases and yields—but it is about slow change and considering the policies of the past when deciding where you go next. Micro-economies like land values and production rents do take into account the value of farm programs that are connected to the land. So the fact that rice or peanut farmers have larger direct payments than I do with my corn and wheat base is simply reality, and it should be taken into account in crafting the next farm bill.

The Senate plan fails terribly on this front. In taking away direct payments in total, and replacing it with a free insurance-type product based on the last 5 years income, the Senate Bill essentially throws history out the window. Further, by abandoning old base that is oftentimes in conserving uses, the Senate bill shifts significant resources out of certain regions like the west and southwest and into the I-states.

All this of course is reflected in the CBO's score of the Senate Committee bill. Our point is simply that to shift resources in this fashion will create significant windfalls in some areas and significant financial pain in others. We don't believe either of these results are what should be intended in crafting good farm policy.

> ***P3: The priority in redesigning a countercyclical policy should be to protect against deep and persistent price declines.*** *Whether achieved through a countercyclical revenue policy or a price-based policy, the policy must provide effective protection across commodities, and be reliable and bankable to the producer.* ***The marketing loan for commodities should also be maintained*** *and rates raised where practicable in order to reflect today's costs of production.*

Our **third principle** has proven to be very controversial among academics and D.C. organizations in that it calls for simple bankable protection tied to deep and persistent price drops.

A good example of this controversy is in a quote last week from Professor Barry Flinchbaugh at Kansas State University, who, in response to a question about getting rid of direct payments and replacing it with ARC said, "In the long run it is a mistake, but it is a sign of the times. At least they did not go back to the **old target price program,** which pays farmers when they do not need it and does not pay them when they do need it. However, the House Committee is talking about this. Some of the House Members refuse to understand the basic economics of farm programs. They still have the **'price, price, price'** mentality instead of revenue." If this is true, if the House is focused on price, let me just say thank you, and that I think you have a better understanding of the basic economics of farming than the esteemed professor Flinchbaugh.

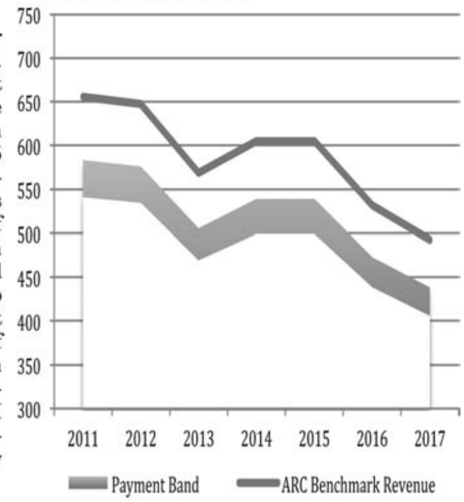
Of the systemic risks (those beyond the control of the farmer) which farmers face, prolonged periods of low prices would be most devastating to the economy and is most worrisome to SWCA members—producers, lenders and agribusinesses alike. The fact is that production losses are being addressed well by crop insurance. Single year revenue losses are being addressed well by crop insurance. But if a series of events like a strengthened dollar, above average yield worldwide, and a slowdown of Asian economies struck, causing corn and sorghum prices to decline to $3.00, soybeans to $7.00, wheat to $4.00, rice to $11.00 and cotton to $.65, our current farm policy would be ineffective and rural economies would suffer.

Within the ARC program, the Senate bill does offer some price protection, tying the revenue to the 5 year Olympic Average of price. But the SWCA does not, and I do not believe this provides adequate protection. A 5 year rolling average price-trigger can offer assurance in the first and second year of a price decline, but by the third year the protection is severely eroded. And, of course, our experience from 1997 to 2006 would confirm that prices can remain below cost of production for multiple years.

In this way, the current debate reminds me of the 1995/1996 timeframe when economists (including the one quoted above) assured us all that we had hit a new plateau of prices and that growing world demand for food and fiber would keep prices high. In 1995, the season average price for corn hit $3.24—an all time high. But over the next 4 years, prices fell to $2.71 in 1996; to $2.43 in 1997; to $1.94 in 1998; and to $1.82 in 1999—that is a 44% collapse in prices over 4 years that was absolutely devastating.

How would a 5 year Olympic Average price safety net have fared during these times? Well it would have peaked in 1998 at $2.55, but then trailed off over the next 4 years to $2.07 in 2001, and then $1.92 in 2002 and 2003. That is **not** what I, or my banker, would have considered adequate price protection.

ARC Protection if 1996–2003 (44%) Price Drop Occurs



In 2010, the season average price for corn hit $5.40—a new all time high. But what if we shed 44% over the next 4 years just as we did in the late 1990's? How will farmers fare with corn prices at $3.02? The current 5 year Olympic Average for corn relevant to 2012 is $4.55, which sounds like an attractive safety net. But if that safety net is allowed to trail down over a couple years back to the mid $3.00 range or lower, then it is no longer helpful. The chart to the right illustrates how ARC's red ribbon of protection would move on my farm should prices decline by the same percentages they did in the late 1990's. I can tell you this diminishing red ribbon of protection does not look very good.

The reality of this diminishing assistance is not lost on even its proponents. Indeed, Dr. Schnitkey, the University of Illinois professor who was on your previous panel, wrote an article last week where he stated, "If prices are persistently low for several years, ARC payments will decline over time as lower prices enter into the calculation of benchmark revenue. Hence, ARC will provide payments in early years of a multi-year price decline, eventually though farmers will need to fully adjust to price declines as ARC payment decline."

So no one is disputing that there is no bankable price protection in the Senate bill, therefore this is just a policy decision for you. Does the House Agriculture Committee think the best thing for farmers and the agricultural complex in this nation is a moving shallow loss ribbon of protection like ARC, or do you want to set a stable base or foundation that only pays if commodity prices sink and remain below cost of production?

Now I can tell you I am thrilled prices are still relatively strong in the 2011 marketing year and 2012 planting season, and I am hopeful they remain this way—but with the prospect of a 15 billion bushel corn crop this year and international economic turmoil, I am not confident they will. Bottom line, I as a producer and we as an organization think building in more relevant protection in the 2012 Farm Bill is wise policy should prices go south again, as history has shown they most likely will.

If one defines conservatism, fiscal responsibility, and market orientation by the traditional measures of how much something costs and how often it intervenes, price-based farm policy that only kicks in when it is absolutely necessary is also the conservative, fiscally responsible, and market-oriented approach.

P4: The separate counter-cyclical mechanism should complement, not compete with or duplicate, the protection that can be purchased through Federal crop insurance. *Moreover, crop insurance should be improved, especially as it relates to insurable yields (**i.e.,** the Actual Production History system) and specific crops such as rice and peanuts that are currently underserved. The area-based supplemental insurance authority (SCO) is a well-crafted and cost effective option for shallow loss coverage.*

The SWCA's **fourth principle** focuses on interactions with crop insurance, affirming the notion that a highest priority in the farm bill must be to do no harm to crop insurance.

At the farm level, there is a persistent issue with what have been deemed "shallow losses," or losses within the deductible amounts of insurance. But while this is a real problem that merits creative solutions, we are concerned about free "shallow-loss" revenue mechanisms that will displace or disincentivise the buy-up of crop insurance.

While ARC does not exactly duplicate what crop insurance does, there is at least some crossover and, in the minds of the public and especially the critics, any effort to say there is no duplication between the two will be regarded, however falsely, as merely parsing words. It is important to remember in this exercise that we must not just pass a farm bill but we must also one day defend it as well.

Because crop insurance is working so well for production losses and in-season price losses, we believe it would be a far wiser use of limited Federal resources to address revenue issues that cannot be covered well by crop insurance—and this points us back to the problem of deep and systemic price losses.

To the extent deductible-level losses are a problem that the Federal Government wants to help producers address, we believe it should be done through Federal crop insurance. In this vein, we are excited about RMA-initiated improvements to the APH like the Trend Yield Adjustment option, and the potential for expanded use of Personal T-yields, even potentially with a better 70% plug yield. We are also very supportive of the Supplemental Coverage Option (SCO) that has been considered and was at least partially included in the Senate plan. The SWCA believes that "shallow-loss" policies such as this are better and more defendable to the extent they are actuarially sound and the producer has skin in the game.

Finally, adding the SWCA's voice to the chorus saying "do no harm" to crop insurance, let me just say that the proposals to link conservation compliance and/or to impose a pay limit on crop insurance are thinly veiled attempts to kill insurance for farmers. They should be forcefully rejected. Period.

*P5: Given declining budgetary resources, **assistance should generally be tailored to planted acres.** However, we are concerned about base acres, particularly in the western Great Plains, that are currently in grass and receiving decoupled benefits. Because of their conserving use, we would urge the consideration of alternative positive incentives to keep this land in grass where the economic benefits of breaking it out would be outweighed by the potentially adverse environmental impact.*

Our **fifth principle** concerns payment acres, and reflects the general belief that farm policy should provide assistance to those at risk.

However, as noted above, this is a difficult issue with significant repercussions. Federal Crop Insurance is already tailored to planted acres only, and provides a significant benefit to the farmer based on his or her particular needs.

For the FSA policy, we believe keeping a base, but updating it and preserving the baseline within each respective commodity would be a wise approach. In addition to promoting commodity-based and regional equity, leaving the FSA program decoupled would simplify administration, prevent unwanted market distortions, and provides WTO protection.

Finally, I would simply note that in much of the area of the SWCA, there is a significant amount of base acres that are and have been in pasture for many years. To the extent that bases are updated, or benefits tied only to planted acres, then special care should be taken in Title I or in the conservation title to provide opportunity for these lands to remain in a good conserving use.

Finally, ***outdated payment limits and arbitrary means tests should be eliminated,*** *and USDA's definition of a "farm" should be updated. Notions of 2.1 million farmers in the U.S. (based on USDA's definition which includes anyone who sells more than $1,000 worth of agricultural production) lead to the distortion of facts. Based on 2007 Census data, only 10% of farms in the U.S. had gross sales over $250,000, and only 125,000 had gross sales over $500,000. These full-time family farms are all-in every year and constitute the "thin green line" that keeps America and much of the world clothed and fed.*

Our **sixth and final principle** concerns the old and unfortunate issue of payment limitations.

Our first priority would be to keep arbitrary limitations or means tests away from Crop Insurance. This is a business oriented risk management policy that should be available to any and all who are willing to take the risks of farming.

As for the FSA policies, I want to just inject a little perspective into this debate. We have been living with payment limitations since 1970, and the first limits were in the amount of $55,000 per individual on FSA-based deficiency payments only. Under the Senate Committee's ARC plan, the payment limitation would be $50,000 per individual, and if corn payments max out at around $55 per acre, a farmer will reach his max on about 900 acres. This is goofy, and seems totally detached from the reality of today where full-time, at risk farmers cover thousands of acres.

Going back to our theme, the SWCA believes our nation's farm policy needs to act as a safety net that provides a bankable and reliable safety net for at risk farm families when forces beyond their control (weather, international markets, foreign government manipulations, *etc.*) would make harvesting the crop they have grown a losing proposition. Our nation and our world needs those crops, and our nation and this world needs those farmers.

Payment limitations bind and hurt when the market is at its worst. They should be eliminated, or increased to reflect today's market realities. Moreover, new rules or bureaucratic definitions for lawyers to interpret should be rejected.

Conclusion

I want to conclude by saying that, having been around this debate for many years, I think we often try to make it too complicated. In this farm bill, which you are writing during what we would all describe as the best of times in agriculture, I would urge you to keep it simple.

- ✓ Address the shallow losses, but do it through the incredibly successful and proven crop insurance system where the producer has skin in the game, or at least do it in a way that is simple to administer and does not undermine or compete with crop insurance. The SCO seems the best and easiest potential option here.
- ✓ Provide simple and bankable price protection that is reflective of today's costs, and keep it on an updated but decoupled base so as to not distort the market. Hopefully market prices will remain high and it will never cost a dime.
- ✓ Keep your core crop insurance strong, and make improvements to the APH and other areas so that all producers can cover their yield risks and in-season price risks in this way.

It is our strong belief that if you pair such a straight-forward and bankable Title I and Federal Crop Insurance Program with similarly strong and progressive conservation and research titles, then you will lay a good foundation for continued growth in our nation's agricultural sector.

This is so important and fundamental. The stakes are so high for our world. Again, I thank you, and the SWCA thanks you for your thoughtful considerations of these matters.

The CHAIRMAN. Mr. Vaughn, thank you very much.

Mr. Coley for 5 minutes.

STATEMENT OF C.B. "CHUCK" COLEY, CHAIRMAN, NATIONAL COTTON COUNCIL; PRESIDENT, COLEY GIN AND FERTILIZER, VIENNA, GA

Mr. COLEY. Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee, thank you for holding this hearing and allowing me to provide testimony on behalf of the U.S. cotton industry. My name is Chuck Coley and I am a farmer and ginner from Vienna, Georgia, and I currently serve as Chairman of the National Cotton Council.

I will use my time to review the cotton industry's proposal, which is a significant but necessary departure from policy that has served us so well.

Mr. Chairman, the industry is most grateful that the cotton provisions we continue to strongly support were included in the recommendations to the Joint Committee on Deficit Reduction last year.

The cotton industry has two challenges in developing future policy. The first is the necessity to reduce spending. The second, which is unique to cotton, is the need to include policy in the new farm law which serves as the basis to resolve the longstanding Brazil WTO case.

To meet both challenges, the industry proposed an area-wide revenue insurance product that supplements the existing crop insurance product. We also recommend modification to the Marketing Assistance Loan Program. As originally proposed, STAX is a new insurance product that could be purchased to cover revenue losses greater than five percent and extending up the losses of 30 percent. The product is based on existing GRIP products, and like enterprise unit coverage, producers would pay 20 percent of the premium established by RMA. Calculations of expected and actual revenues would be based on the higher of a reference price or the relevant New York futures quotes and RMA's national county yield data. Growers would not be required to purchase underlying insurance coverage to be able to purchase STAX but it would be highly recommended.

As originally proposed, STAX would cost 30 percent less than extension of the current program and it would establish the policy structure necessary to resolve the Brazil WTO case and eliminate the threat of retaliation. We are very aware of recent criticisms of our proposal by Brazilian officials, even though STAX fits in 50 percent of the WTO panel's determination that crop insurance is not price distorting. STAX and the proposed changes to the marketing loan would have a reduced total support of cotton by more than 40 percent relative to the program that was in place during the period evaluated by the WTO panel. Looking forward, the cotton program reported by the Senate committee represents a 46 percent reduction in the cotton budget baseline but needs a significant session to resolve the case.

Two of Brazil's stated primary concerns of STAX were that the program offers too generous coverage and includes a reference price. We understand this is a negotiation and we believe we have provided USTR and USDA with significant reforms. We wish to work to resolve this case.

Mr. Chairman, we believe commodity policy should address the unique challenge of various commodities and regions. We support offering growers a choice. We want the choices of cotton producers to include STAX and the supplemental coverage option. Resolution of the WTO case will also require modifications of Export Credit Guarantee Program. We are prepared to work to address the WTO concerns while maintaining the value of this program.

In addition to STAX and SCO, we support the continuation of Economic Adjustment Assistance Program for the domestic textile industry and the loan and competitiveness program for extra long staple cotton. We oppose the tests for program participation that have unreasonably low AGI levels. The 2008 farm law made significant reforms by eliminating the three-entity rule and modifying the actively engaged in farming rules. We oppose further modification to those provisions and the application of unreasonable limitations on program and benefits. We also strongly oppose applying limitations on eligibility requirements to crop insurance.

Mr. Chairman, we share the concern the commodity program policies should be most effective when prices decline precipitously and unexpectedly. Market volatility is a tremendous challenge and a growing risk. I believe that STAX in combination with existing crop insurance products, the supplemental coverage option and adjusted marketing loan are the most effective recommendations we can offer to address the budget constraints and WTO compliance requirements.

In closing, I ask that you and your colleagues support continuation of the United States-Brazil framework agreement until a new farm law is enacted. The industry's proposal is significant and modifications to the programs successfully challenged by Brazil and offer a way towards resolution. Negotiations should proceed under the terms of the framework agreement.

Thank you for your attention and I look forward to your questions.

[The prepared statement of Mr. Coley follows:]

PREPARED STATEMENT OF C.B. "CHUCK" COLEY, CHAIRMAN, NATIONAL COTTON COUNCIL; PRESIDENT COLEY GIN AND FERTILIZER COMPANY, VIENNA, GA

Introduction

I would like to thank Subcommittee Chairman Conaway, Ranking Member Boswell and Members of the Subcommittee for the opportunity to offer the views of the National Cotton Council regarding U.S. farm policy. My name is Chuck Coley, and I am a third generation cotton and peanut farmer from Vienna, Georgia. I also am President of Coley Gin and Fertilizer which includes a cotton gin and warehouse; a peanut buying point and warehouse; and a fertilizer and crop protection product distribution company. I am currently serving as Chairman of the National Cotton Council.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandisers, merchants, cooperatives, warehousers and textile manufacturers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from the Carolinas to California. The scope and economic impact extends well beyond the approximately 19 thousand farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year. Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of $100 billion.

The NCC believes that sound farm policy is essential to the economic viability of the cotton industry. We appreciate the dedication and diligent work of the leadership of the House Agriculture Committee during last fall's efforts to achieve a joint deficit reduction package. While that effort did not advance a farm bill to conclusion, the U.S. cotton industry supports the commitment to conclude a farm bill in 2012. It is critically important to provide certainty to those involved in production agriculture since they make long-term investment decisions based in part on Federal farm policy. The NCC also strongly supports balanced commodity programs that address the specific needs of individual commodities across different regions of the country *versus* a one-size-fits-all approach.

The combination of the marketing loan, Direct Payments (DP) and Counter-Cyclical Payments (CCP), as structured in the 2008 Farm Bill, has served the cotton industry extraordinarily well and, in recent years, has required minimal Federal outlays. However, deficit reduction efforts are placing unprecedented pressure on the existing structure of farm programs. We understand that the Agriculture committees are facing a daunting challenge of providing an adequate safety net with sharply reduced funding.

The U.S. cotton industry faces the unique challenge of resolving the longstanding WTO dispute with Brazil. In developing new farm legislation, the U.S. cotton industry pledges to work with Congress and the Administration to resolve the Brazil WTO case and remove the imminent threat of retaliation against exports of U.S. goods, services and intellectual property. As you know, the case includes findings against parts of the upland cotton program as well as the export credit guarantee program used by cotton and many other commodities. We believe our proposal resolves the cotton portion of the dispute. However, the export credit guarantee program must also be addressed and we look forward to working with other agriculture groups to resolve that aspect of the case.

In light of budget constraints and trade considerations, the industry recommends a revenue-based crop insurance program available for voluntary purchase which will strengthen growers' ability to manage risk. By complementing existing products, the program would provide a tool for growers to manage that portion of their risks for which affordable options are not currently available.

The revenue-based crop insurance safety net would be complemented by a modified marketing loan that is adjusted to satisfy the Brazil WTO case. This structure will best utilize reduced budget resources, respond to public criticism by directing benefits to growers who suffer losses resulting from factors beyond their control, and build on the existing crop insurance program, thus ensuring no duplication of coverage and allowing for program simplification. The revisions will provide confidence to lenders and ensure market-oriented production decisions that ultimately serve the long-term financial health of merchandizers, processors, related businesses and rural economies.

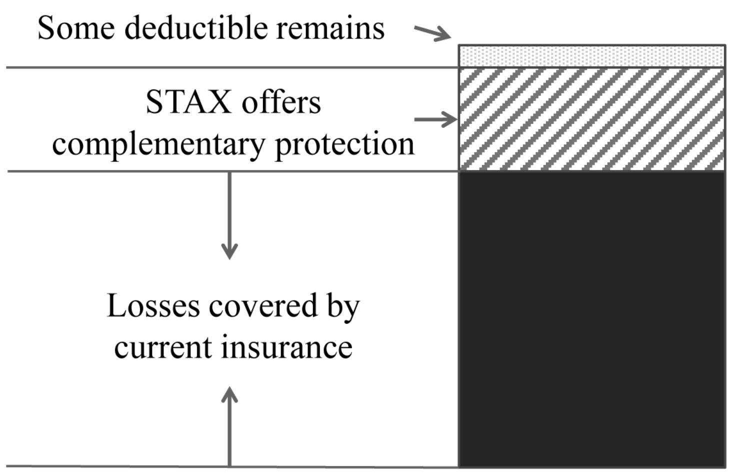
Stacked Income Protection Plan

The recent cotton market has been characterized by extremes. Cotton prices exhibited unprecedented volatility, essentially tripling between April 2010 and April 2011. However, the exorbitant surge in prices, which was in part fueled by unexpected cotton export restrictions by India, placed tremendous pressure on textile manufacturers, and cotton demand suffered as a result. By the end of 2011, cotton prices had retreated, losing much of the gains of the earlier rally. As market prices experienced greater turbulence, portions of the U.S. Cotton Belt faced extreme weather conditions. The southwestern region, most notably Texas and Oklahoma, suffered through the worst drought conditions on record in 2011. Based on USDA data, the percentage of planted acres that were un-harvested reached an all-time high. Unpredictable and extreme weather conditions continue to afflict many parts of the country. Last year, portions of the Mississippi Delta region lost crops due to spring-time floods, while areas in the Southeast faced drought conditions. Unfortunately, unusual market and weather events have occurred when input costs are at an all-time high. As a result, operating margins are volatile and extremely tight.

Farmers understand that agriculture is an extremely risky endeavor, but they also understand that effective risk management is the key to long-term viability. While the goal of farm programs is not to completely remove the risk associated with farming, farm programs should strive to provide opportunities for effective risk management. The Stacked Income Protection Plan (STAX) accomplishes that goal. STAX is designed to provide a fiscally responsible and effective safety net for upland cotton producers. The program will be administered in a manner consistent with current crop insurance delivery systems and is designed to complement existing crop insurance programs. While this proposal does not change any features of existing insurance products, the STAX product is explicitly structured so as to avoid duplication of other insurance coverage.

STAX is designed to address revenue losses on an area-wide basis, with a county being the designated area of coverage. In counties lacking sufficient data, larger geographical areas such as county groupings may be necessary in order to preserve the integrity of the program. The "stacked" feature of the program implies that the coverage would sit on top of the producer's individual crop insurance product (*Figure 1*). While designed to complement an individual's buy-up coverage, a producer would not be required to purchase an individual buy-up policy in order to be eligible to purchase a STAX policy.

Figure 1. Stacked Income Protection Plan



The STAX revenue product would be funded using available upland cotton baseline spending related to the CCP, DP and Average Crop Revenue Election (ACRE) programs. In addition, producers would bear a portion of the cost of the program by paying some part of the premium. However, producer premiums would be offset to the maximum extent possible through the use of available upland cotton spending authority for the CCP, DP and ACRE programs. The cotton industry believes that the premium offset should be no less than 80%, which is the current subsidy level for all enterprise unit policies.

The basic design of the STAX product is similar to current Group Risk Income Protection (GRIP) plans offered through the Risk Management Agency (RMA). The U.S. cotton industry's proposal includes two notable changes relative to the current GRIP plan. The first is the introduction of a reference price in the formula determining the expected or reference income. Secondly, the industry's proposed STAX plan would cover only those losses at the upper end of the producer's risk profile. Indemnities under the STAX plan would be paid on upland cotton planted acres purchasing the plan.

The following table highlights the basic design of STAX. The description in *Table 1* is not an exhaustive list of the possible features of the program, but rather a general overview. Specific parameters and features of the program will in part be determined by budget considerations.

Table 1. Basic STAX Overview

Relevant market prices for crop insurance products are determined based on futures markets	Projected Price	Use same procedure as current insurance products. (For much of the Cotton Belt, the Projected Price is determined as the average closing value of the December contract for a relevant pre-planting period.)
	Harvest Price	Use same procedure as current insurance products. (For much of the Cotton Belt, the Harvest Price is determined as the average closing value of the December contract for a relevant harvest period.)

Table 1. Basic STAX Overview—Continued

Determine level of price and income protection under STAX policy	Preliminary Price Protection Area-wide Projected Income Area-wide Reference Income	Higher of the Projected Price and a **Fixed Reference Price.** Preliminary Price Protection multiplied by the Expected County Yield. The higher of the Preliminary Price Protection and the Harvest Price multiplied by the Expected County Yield.
Determine if indemnity is paid under the policy	Area-wide Realized Income Area-wide Indemnity	The Harvest Price multiplied by the Actual County Yield. If the Realized Income falls below an **Elected Percentage** of the Reference Income, then an Indemnity equal to the difference is triggered. However, the Indemnity may not exceed a **Defined Percentage** of the Reference Income.

The U.S. cotton industry proposes that growers should have the ability to purchase STAX coverage up to a 95% level. The higher coverage level is especially important in production areas that have made significant investments in irrigation. However, producers should have the ability to adjust their upper coverage level depending on their risk profile and their ability and willingness to pay the associated premium. Producers will have the flexibility to adjust the width of the STAX coverage by selecting a lower bound of coverage, thus establishing a maximum indemnity. Furthermore, if a producer purchases an individual or traditional area-wide buy-up policy, the STAX lower bound must be a number at least as large as the coverage level selected in the buy-up policy. For example, a producer who purchases an individual revenue or yield product at an 80% coverage level and also chooses to purchase a STAX policy, the lower bound of the STAX policy can be no lower than 80%. STAX is designed to complement current insurance coverage and not overlap with that coverage.

As previously mentioned, the industry's STAX proposal includes a reference price in the determination of the county reference income. In a manner consistent with other crop insurance products, price protection under the STAX plan is based on cotton's December futures contract during a relevant pre-planting period. In recent weeks, the December 2012 contract has traded between $0.78 and $0.95 per pound, and the nearby December contract has averaged $0.82 between 2008 and 2012. Price projections by USDA and the Congressional Budget Office (CBO) are consistent with futures markets trading in the 80¢ range. However, the industry understands the volatility of commodity markets and the importance of downside protection during times of low prices. As a result, the U.S. cotton industry believes that a reference price of $0.65 per pound provides important protection during those times of low prices, but this should trigger on an infrequent basis given current projections for commodity markets. Also, since STAX is an insurance product, premiums will adjust to reflect the likelihood of indemnities should the futures market fall below the reference price. In other words, the minimum price does not come without a cost to the producer. Also, it is important to remember that even with a reference price of $0.65, indemnities are not triggered until actual income falls below the selected trigger level. If a grower has purchased a 90% STAX policy, then futures must trade below $0.585 (*i.e.,* 90% of $0.65) before indemnification occurs, assuming actual yields are in line with expectations. At this level, the cotton industry is confident that the reference price is set at a level that will offer protection against sharply lower prices, but do so in a manner that does not induce additional acres of cotton.

As a final point regarding STAX, the industry is urging that the product be fully available beginning with the 2013 crop. We certainly appreciate the efforts of this Subcommittee and the full Committee to advance the farm bill process as quickly as possible. However, if unforeseen circumstances should delay the legislation and the subsequent implementation of STAX, a transition program would be needed for 2013 if STAX were unavailable until the 2014 crop. The cotton industry stands ready to work with Congress during the farm bill process to develop an acceptable transition.

Other Crop Insurance Issues

Across the Cotton Belt, crop insurance is an essential risk management tool for cotton producers, and the STAX plan will provide another viable option for producers to effectively address their risk profile. Given the diversity of weather and production practices, the menu of insurance choices should be diverse and customizable, thus allowing for the fullest participation and most effective coverage.

In 2008, the introduction of enterprise unit pricing gave producers one more option for insuring against those risks that are beyond their control. The U.S. cotton industry strongly supports the continuation of that option in the 2012 Farm Bill and urges Congress to provide for the availability of enterprise unit pricing for growers who separate their farms by irrigated and non-irrigated practices.

The industry also supports crop insurance products that allow growers to insure the deductible of their underlying buy-up policy.

Upland Cotton Marketing Loan

The findings of the WTO Brazil case and the subsequent Framework Agreement between the U.S. and Brazilian governments require that changes be made to the marketing loan for upland cotton as part of the development of the 2012 Farm Bill. To address that requirement, the NCC proposes that the level of the upland cotton marketing loan be adjusted based on the historical Adjusted World Price (AWP).

The loan rate for a crop will be determined in the fall prior to planting the crop and be set equal to the average of the AWP for the two most recently completed marketing years provided the 2 year moving average falls within a set maximum and minimum loan level. If the 2 year moving average exceeds $0.52, the loan rate is set at a maximum level of $0.52. If the 2 year moving average falls below $0.47, the loan rate is set at a minimum level of $0.47. All other features of marketing loan remain unchanged from current law.

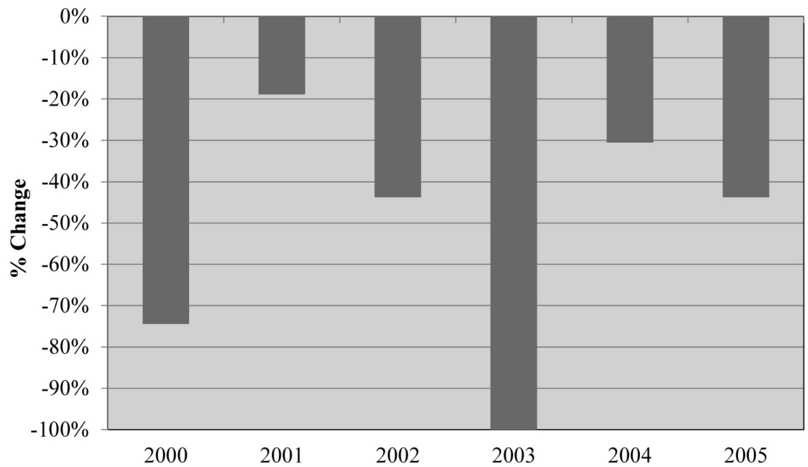
As an illustration, the loan rate for the 2013 crop would be announced in the fall of 2012 based on the average AWP prevailing over the 2010 and 2011 marketing years, which represent the two most recently completed marketing years. Once announced, the level of the loan remains fixed for the duration of the marketing year.

The WTO dispute with Brazil focused on data and market developments during the early 2000s, which was a time of chronically weak prices with the AWP below the marketing loan for extended periods. Had the proposed formula been in place during those years, the marketing loan for upland cotton would have declined to $0.47 for much of the period. With a loan rate of $0.47, any marketing loan gains would have been substantially lower than actual levels—with reductions generally above 20% and in some cases, more than 70% lower than actual levels (*Figure 2*).

As previously mentioned, existing features of the upland cotton marketing loan should be retained in the 2012 Farm Bill. These include an effective determination of the AWP for purposes of loan redemption in times of low prices, as well as the provision of storage credits should the loan redemption price fall below the loan rate.

In order to be eligible for a marketing assistance loan, upland cotton must be stored in an approved warehouse. Unlike most bulk commodities, upland cotton cannot be farm stored, so to utilize the loan a producer has no option other than to enter cotton in a warehouse where storage and handling charges accrue until the cotton is marketed. Since cotton is stored in identity preserved units (each bale has a distinct identity), storage and shipment require more time, effort and expense than other crops. Storage credits allow the U.S. to remain competitive in times of low prices and should be maintained in new farm legislation.

Figure 2. % Change in Marketing Loan Gains with $0.47 Loan Rate



Resolution of the Brazil Dispute

The NCC understands the importance of resolving the Brazil WTO dispute within the 2012 Farm Bill. Since the industry first unveiled the STAX proposal last fall and even following the actions by the Senate Agriculture Committee in late April, the Brazilian Government has repeatedly voiced their objections to STAX. In our opinion, those objections are unfounded and the industry believes that STAX, as originally proposed, addresses the concerns of the WTO panel.

In this longstanding trade dispute, the WTO panel concluded that the combination of the marketing loan, target price and former Step 2 provision of the marketing loan combined to cause significant price suppression and serious prejudice to Brazil's cotton industry.

The Step 2 provision of the upland cotton marketing loan was eliminated in 2006. In the context of the current farm program, the only remaining provisions relevant to the Brazil dispute are the marketing loan and the target price. NCC's farm policy proposal rectifies both of those programs by eliminating the upland cotton target price and introducing a formula that would lower the marketing loan rate in times of low prices.

Moving upland cotton's support into an insurance program is consistent with the determination of the WTO panel that found no trade distortion or price suppression related to insurance programs. The WTO panel essentially treated insurance programs in the same light as direct payments in terms of production and price impacts. Under the NCC's proposed changes, coupled with past program eliminations, total support to upland cotton deemed to be trade-distorting by the WTO panel would have declined by 60% over the period 1999 to 2005, which is the period on which the Panel's findings are based. Further, total support to cotton, including Direct Payments and insurance premium subsidies, would be down by 40% under the industry's original proposal.

The NCC believes the combination of STAX, as originally proposed by the industry, and the modified marketing loan significantly reduces U.S. trade-distorting support for upland cotton. It should be noted that the STAX included in the Senate package goes even further by eliminating the reference price and reducing the maximum coverage from 95% to 90%. These changes directly address the top concerns cited by Brazil. Further, NCC economists have estimated that total support to upland cotton for the 1999–2005 period under the provisions of the Senate package would be 52% lower than actual support.

While 1999 through 2005 was the focus of the case, constraints on future support to upland cotton also are important to note. Under the Senate package, the combination of deficit reduction and program adjustments lead to a reduction in cotton's projected support of more than 40% when compared to a continuation of current programs. It is abundantly clear that STAX and the modified marketing loan generate lower support for upland cotton and provide a sound basis for resolving the dispute.

Insulation from market forces was a focal point of the WTO dispute. Brazil argued that traditional support programs provide a buffer to growers from the true signals of the market. This is not the case in STAX or other insurance programs. Revenue triggers are directly related to the current level of futures markets. Fortunately, cotton prices have increased over the last 2 years, and as a result, price elections under crop insurance are higher. However, when the market moves lower, support under STAX and insurance programs will move lower as well. STAX does not 'lock-in' high revenues through artificial means such as moving averages of prices or limits on annual changes. STAX simply looks to the market and allows growers to buy a level of coverage based on market signals. Furthermore, the higher coverage levels are not based on individual experience but rather area-wide triggers. There is no guarantee for the producer's individual income.

Provisions of the upland cotton program are just one aspect of the WTO dispute with Brazil. Brazil also successfully challenged export credit programs for cotton and a number of other agricultural commodities. NCC remains committed to working with both Agriculture Committees, the Administration and other commodity organizations in an effort to resolve all aspects of the case.

Economic Adjustment Assistance Program

NCC also supports the continuation of the Economic Adjustment Assistance Program (EAAP) for domestic textile manufacturers. The EAAP, authorized in the 2008 Farm Bill, is a success story that is revitalizing the U.S. textile manufacturing sector and adding jobs to the U.S. economy. The program provides a payment to U.S. textile manufacturers for all upland cotton consumed, whether U.S. grown or imported. The payment rate from August 1, 2008 through July 31, 2012, is 4¢ per pound of cotton used, and will be adjusted to 3¢ per pound beginning on August 1, 2012.

Recipients must agree to invest the proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities. The assistance program, which is consistent with WTO commitments, is modeled after trade adjustment assistance programs and is not designed to affect the price or competitiveness of raw cotton.

The EAAP has led to higher employment and increased cotton consumption by U.S. textile mills. Over the past 18 months, the Bureau of Labor Statistics reports that U.S. textile mills have added more than six thousand jobs. Based on a recent survey of EAAP recipients, 70% of respondents cited increases in the number of employees while the remaining 30% noted that labor requirements had either stabilized or more hours were required of existing employees.

The EAAP has allowed investments in new equipment and new technology. Survey responses indicated that companies had constructed new buildings, improved existing buildings, and invested in new spinning equipment and new technology for the purpose of expanding capacity and adding new product lines.

The EAAP has also allowed companies to reduce costs, increase efficiency and increase competitiveness. U.S. textile companies cited an increased ability to be more competitive against foreign competition and opportunities to reclaim market share from Asian competitors were also noted by survey respondents. Other benefits include lower energy costs, greater efficiency in style changes enabling faster adaptability to market conditions, improved quality control, increased capacity, reduced water use and more flexibility to meet customers' needs.

Future investments funded by a continuation of the EAAP will allow further recovery by the U.S. textile industry. Companies have expressed their intent to build new plants, add additional spinning and weaving technology, and replace existing equipment with more efficient machinery.

Payment Limits and Eligibility

The NCC has always maintained that effective farm policy must maximize participation without regard to farm size or income. Artificially limiting benefits is a disincentive to economic efficiency and undermines the ability to compete with heavily subsidized foreign agricultural products. Artificially limited benefits are also incompatible with a market-oriented farm policy.

While the cotton industry understands the pressures for even more restrictive limits, we would like to remind the Subcommittee that the 2008 Farm Bill contained significant changes with respect to payment limitations and payment eligibility. In fact, the 2008 farm law included the most comprehensive and far-reaching reform to payment limitations in 20 years. The limitations were made more restrictive, and the adjusted gross income test was substantially tightened. As part of the 2012 Farm Bill, the NCC would oppose any further restrictions on payment eligibility including lower limits or income means tests. Likewise, we have serious concerns with any efforts to change the requirements that determine whether an individual is considered to be actively engaged in the farming operation. Arbitrary restrictions on the contribution of management and labor are out of touch with today's agricultural operations and would only contribute to inefficiencies.

Extra Long Staple Cotton

Extra Long Staple, or "Pima" cotton producers support continuation of a loan program with a competitiveness provision to ensure U.S. Pima cotton remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

Export Promotion Programs

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependent agricultural economy. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets—but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

We appreciate the opportunity to provide these comments and look forward to working with the House Agriculture Committee in the development of a 2012 farm law that effectively meets the needs of cotton producers while addressing the challenges posed by budget constraints and trade concerns.

The CHAIRMAN. Thank you, Mr. Coley.

Mr. Brown for 5 minutes.

STATEMENT OF SCOTT W. BROWN, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, SODA SPRINGS, ID

Mr. BROWN. On behalf of the National Barley Growers Association, I want to thank Chairman Conaway and Ranking Member Boswell, as well as Members of the Committee, for this opportunity to comment on the commodity and crop insurance programs. It is an honor to represent U.S. barley growers before you today. I am Scott Brown, President of the National Barley Growers Association. I operate a fourth-generation family farm in southeastern Idaho growing malt barley on 70 percent of the farm.

Barley is a short-season crop grown on both irrigated and dryland production areas, primarily in the Northwest and the Northern Plains. The majority of the barley is grown for malting purposes because of malt's price premium. In fact, about 90 percent of the annual 2 million acres planted in the United States today is now malting varieties, which is a marked departure from past history when livestock consumed most of the crop. In recent years, the crop's total value has averaged $936 million per year.

U.S. barley production and related industry continues to face significant economic market-driven and public policy challenges affecting the sustainability of domestic barley production. Annual U.S. barley acreage reached its peak in the 1940s at 20 million acres but has declined to less than 3 million acres today. This downward trend is alarming and must be address if the United States is to continue to meet the needs of its domestic industry, and this is a rather serious situation when you think about it because boiled down into a few words is the simple fact no barley, no beer.

Our highest priority is preserving the Federal Crop Insurance Program as it provides a critical risk management tool to handle what we see as an increasingly volatile production climate for barley. Risk Management Agency data shows that crop insurance for barley is increasingly popular. From 2010 to 2011, RMA liabilities for barley insurance increased 41 percent in just 1 year. Likewise, acres insured as well as premiums paid have increased in recent years as well.

Our three policy priorities for crop insurance are number one, we oppose major crop insurance authorization changes within the context of the farm bill reauthorization. We strongly support the 508(h) insurance policy development process as established in the 2008 Farm Bill and we support enhancements to the 508(h) that provide grower organizations with a strong voice in implementing new crop insurance products in cooperation with developers and RMA.

Second, we oppose conservation compliance and payments limits as a requirement for crop insurance. Any such mandates would provide a disincentive to participating in crop insurance and commodity support programs.

Third, we support the expanded availability of revenue policies for barley which insure producers for yield, quality and price. We believe that these priorities would provide U.S. barley producers with a more effective risk management portfolio and likely increase participation by barley growers in the crop insurance program.

We strongly urge Congress to reauthorize the farm bill this year. Farming is already one of the most risky enterprises in the economy and producers need the certainty provided by this legislation. We support a farm program safety net that would protect producers from a multi-year collapse in prices, which is something that crop insurance revenue programs do not adequately address.

But farm programs must encourage producers to follow market signals rather than planting for the best available payment. The program must continue to allow and not impede planting flexibility, which by the way is one of the most innovative and important farm policy reforms adopted by Congress.

The price component of any safety net should be equitable and based on historical price relationships between program costs. Historically, price supports have not been equitable. We believe that it is very difficult to achieve equality because the price relationships between crops continue to evolve. For instance, the current malting contracts have increased relative to wheat prices to the point that they are tracking 90 percent of wheat's value, and as stated earlier, the majority of barley is planted for the malting industry.

NBGA firmly believes that if rotational crops receive higher target prices compared to barley, and if they are tied to current year plantings, barley acres will fall if prices decline to levels near or below target prices. Given the already declining trend in barley acres, any trigger that causes a further decline in acreage could severely impact the critical mass supporting domestic barley production. The potential that a farm program could influence growers to plant competing crops with more lucrative support prices during a period of low prices is causing great concern for barley growers and the industry relying on the crop.

Finally, NBGA supports a revenue program that covers shallow losses with payment triggers as close to farm level as feasibly possible.

In conclusion, barley growers understand and agree that a domestic farm safety net must be defensible to U.S. taxpayers and compliant with our existing trade agreements.

Thank you, Chairman Conaway and Ranking Member Boswell. National Barley looks forward to working with you and your staff to develop a farm bill as soon as possible. Thank you.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF SCOTT W. BROWN, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, SODA SPRINGS, ID

On behalf of the National Barley Growers (NBGA), I want to thank Chairman Conaway and Chairman Lucas, Ranking Members Boswell and Peterson, as well as the Members of Committee, for the opportunity to testify for today's hearing regarding the "*Formulation of the 2012 Farm Bill: Commodity Programs & Crop Insurance.*"

I am Scott Brown, President of the National Barley Growers Association. I operate a fourth generation family farm in Soda Springs, Idaho in the southeast region of the state growing primarily malt barley on 70 percent of the acreage. It is an honor to represent U.S. barley growers today, and thank you for this opportunity to comment on the farm bill.

Barley is a short-season, early maturing crop grown on both irrigated and dryland production areas in the United States. It is a versatile crop that is grown for malting, human food, and animal feed. Production is concentrated in the Northern Plains states and the Pacific Northwest in areas where the growing season is relatively short and climatic conditions are cool and dry.

In 2011, over 2 million acres of barley was harvested nationwide. From 2008 to 2011, U.S. farmers produced an annual average of 201 million bushels contributing over $936 million per year to the nation's economy.

The majority of barley is now grown for malting purposes because of the price premium it commands. Approximately 90 percent of U.S. barley acreage is now planted to malting varieties, a marked departure from past history when livestock consumed most domestically produced barley.

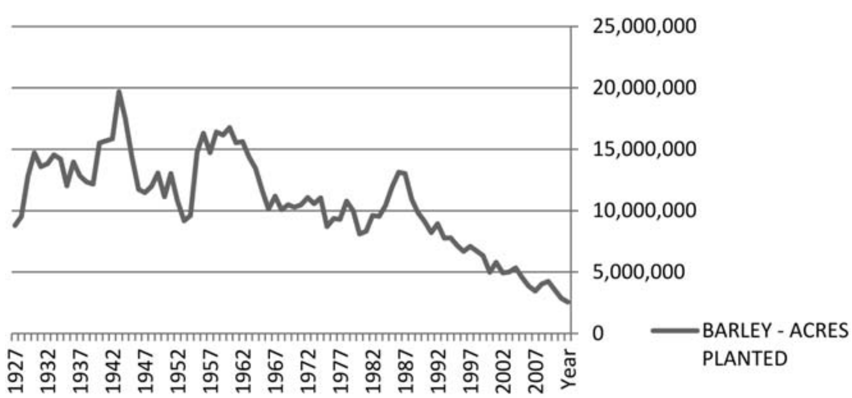
Challenges

U.S. barley producers and the related industry continue to face significant economic, market-driven, and public policy challenges affecting the sustainability of domestic barley production.

Barley production in the United States continues to lose acreage to competing crops that offer more attractive pricing, stronger investment into public and private research and development, and advantageous public policy incentives.

The chart below shows barley acres planted since 1928 and clearly demonstrates an alarming trend that must be addressed if the U.S. is to continue to meet the needs of its domestic industry.

U.S. Barley—Acres Planted



I. Risk Management

The NBGA's highest priority in the farm policy arena is the continuation of, and adequate funding support for, the Federal Crop Insurance Program. The program provides a critical risk management tool to handle what we see as an increasingly volatile marketplace.

The 2011 crop year proved to be a disastrous one for key barley producing regions in the Northern Plains. Record snow fall followed by a long period of heavy moisture caused extreme flooding that wreaked havoc on farmers and crop production.

North Dakota provides a strong example of the value of crop insurance to barley producers. In 2010, 720,000 acres were planted to barley and 650,000 of those acres were harvested. By contrast, in 2011 only 400,000 acres were planted; 350,000 acres harvested equating to a 44 percent (44%) reduction in planted barley acres statewide.

This weather phenomenon in 2011 produced a record 211,000 barley acres designated as prevented plant and thus a 62 percent (62%) loss of production from 2010 to 2011. Clearly a major disaster by any standard for one of the top barley producing states in the country. As you can see, crop insurance plays a vital role for barley producers in North Dakota and all major production regions in the United States.

The USDA Risk Management Agency (RMA) numbers show that crop insurance for barley is increasingly popular. USDA RMA liability for barley crop insurance increased from $261 million in 2010 to $441 million in 2011—a 41 percent (41%) increase in just 1 year. Acres insured have increased in recent years as have the corresponding premiums paid ($65 million in 2011).

As a bulk commodity, barley is not traded on any public exchange. RMA barley crop insurance policies use pricing derived from market data of competing crops like corn and wheat. The NBGA and its seven affiliate states has worked with the RMA to ensure that barley crop insurance policies adequately reflect the higher value of malt barley. With the help of the current USDA RMA Administrator and his staff, we have made progress to this end. More can be, and is being done to this regard.

With regard to Federal crop insurance, the NBGA's policy priorities are:

1. **The NBGA opposes major crop insurance authorization changes within the context of the farm bill reauthorization.**

The NBGA believes that, by and large, Federal crop insurance programs, regulations, and processes are beneficial to U.S. barley farmers. There are several efforts underway to modify specific areas of the crop insurance program to benefit barley producers. The NBGA enjoys a close partnership with the USDA RMA to address these initiatives and believes the current authorized process is working. NBGA in particular supports the 508(h) policy development process that was included in the 2008 Farm Bill.

2. **The NBGA opposes "conservation compliance" and payment limits as a requirement for crop insurance.**

Tying crop insurance to compliance with federally administered conservation programs and/or payment limitations is strongly opposed by U.S. barley growers. Any mandate to this end would provide a disincentive to participate in the crop insurance and commodity support programs while additionally causing undue additional risk to barley farmers producing in inherently high risk production regions.

3. **The NBGA supports the expanded availability of revenue policies for barley which insure producers for yield, quality, and price risk.**

The NBGA strongly supports crop insurance revenue policies available since authorization of the 2008 Farm Bill. Specific adjustments to expand the availability of revenue-based policies to barley producers are being addressed by the NBGA and we believe progress is being made.

The NBGA is also very concerned with the crop insurance premium billing dates authorized in the 2008 Farm Bill. Barley is a late-maturing crop and the August 15th premium billing date puts barley producers in the difficult position of paying policy premiums in the middle of the harvest season and before receiving income for a barley crop. The NBGA asks the Committee to strongly consider language to adjust the current premium billing date taking into consideration the unique timing of barley harvest.

The NBGA believes that risk management policy priorities outlined above would provide U.S. barley producers with a more effective risk management portfolio and thus result in sustained and likely increased participation by barley producers in the Federal Crop Insurance Program.

II. Commodity Title

The NBGA strongly urges Congress to reauthorize the farm bill this year, before the September 30, 2012 expiration of the current legislation. Agriculture production is already one of the most risky enterprises in the economy and barley producers need the certainty provided through this legislation. We ask that the Committee and Congress work in a bipartisan fashion to complete this bill as soon as possible.

The NBGA supports the continuation of a farm program safety net that would protect producers from a multi-year collapse of commodity prices. Although crop insurance revenue programs are able to mitigate price declines that occur during a single growing season, they cannot protect against a multi-year collapse in commodity prices.

However, any authorized farm program must allow and encourage producers to follow market signals rather than planting for the best available farm program payment. And the program must continue to allow and not impede planting flexibility, which has been the most innovative and important farm policy reform ever adopted by Congress.

Planting flexibility has spurred the development of sustainable, agronomically sound rotations in various regions of the country. Farms that have adopted these rotations have increased overall production and profitability through more diversified marketing opportunities and a broader risk management portfolio.

The price component of any safety net should be equitable and based on historical price relationships across all program crops. Historically, safety nets have not been set equitably between crops. And we believe that it is very difficult for them to be set equitably because price relationships between crops continually evolve. For instance, current malting contracts—the majority use for barley—are tracking 90% of current wheat prices. We firmly believe that if rotational crops (*e.g.,* corn, wheat, and soybeans) receive relatively higher target prices compared to barley, and if these target prices are tied to current year plantings, barley acres will fall if prices decline to levels near or below the target prices.

Given the already declining trend in barley base acreage, any trigger that causes further loss of acreage could severely impact the critical mass supporting domestic barley production. The potential that a government program could cause growers to plant a competing crop with a more lucrative support price during a period of low prices has caused great concern to the barley producers and the industry reliant on the crop. The NBGA encourages the Committee to give strong consideration to these concerns.

Finally, the NBGA supports a revenue program to cover shallow losses, with the payment trigger as close to the farm-level as feasibly possible. In my home state of Idaho, I operate a mostly dryland barley farm at six thousand feet above sea level in a low rainfall region. In the northern part of Idaho, dryland barley producers average nearly twice as much precipitation as I do while farming at a significantly lower elevation. These major differences within my state are just two factors that influence the effectiveness and impact of having a large area trigger for payments. We also urge that any revised revenue program address the burdensome landlord concurrence requirement within such a program.

In conclusion, the NBGA understands and agrees that a domestic farm safety net must be defensible to U.S. taxpayers and compliant with our existing trade agreements and obligations.

We ask the Committee not to forget the ultimate goal of Federal support for domestic agricultural production—U.S. food, fiber, feed and energy security.

Thank you for the opportunity to submit these comments on behalf of the NBGA and U.S. barley farmers.

SCOTT W. BROWN, *President,*

National Barley Growers Association.

The CHAIRMAN. Thank you, Mr. Brown, and I appreciate the bumper sticker, *No Barley, No Beer.* You got everybody's attention in the room.

I recognize myself for 5 minutes.

Mr. Vaughan, it is being bandied about the talking heads that protecting against multi-year deep price declines is really just a rice or peanuts issue. Is that an accurate criticism?

Mr. VAUGHAN. No, sir, it is not just a peanut and rice issue. As a former President of National Corn Growers Association, I can assure you that I grow five commodities and it is an issue on my farm for all five of those commodities. In my role as President of Southwest Council, I get to interact with a lot of other producers, other states, and I hear from them that their greatest concern is price issues, if we have sustained low prices for a number of years, what do we do in that situation. That is their primary risk they feel. It is not just a single commodity issue, it is not a regional issue, it is a nationwide and all-commodity issue.

The CHAIRMAN. Thank you, Mr. Vaughan.

Ms. Raun, the one-size-fits-all kind of Senate approach, can you expand on your comments in your testimony how you all believe what currently works and if it wouldn't work, going forward?

Ms. RAUN. Right. Well, I explained in there that for rice, that price is our biggest risk and the one-size-fits-all just doesn't work for us. The revenue product, we tried to make it work for us, and with all of our analysis, even adjusting the prices in there, it doesn't work. We do not have the yield risk that the revenue product has in it, and we are also going into it with lower prices. However, within the rice industry, we are a prime example of one-size-doesn't-fit-all because within our industry, we have medium-grain growers, which is a different type of rice that is grown out in California. They like the revenue product and it does work better for them, because going into this, they have gone into it with higher prices. They sell into a different market than the long-grain and the southern crops, and their prices have been higher over the last 5 years. So looking at the revenue product from California's viewpoint, it works, but when you look at it from my viewpoint or from the southern crops, it doesn't work. We are a good example of why one-size-doesn't-fit-all. It doesn't even fit within our industry.

The CHAIRMAN. Thank you.

Mr. Bowling, the testimony for corn growers talked about the farmers should be able to sustain a certain amount of loss in any 1 year. Can you give me a sense from a percentage standpoint what that loss would be an acceptable percentage, year in and year out, for corn growers?

Mr. BOWLING. It is hard to say what a percentage would be but if I had to put a number on it, I would say 10 to 25 percent.

The CHAIRMAN. Okay.

And Mr. Stallman, we are going to do away with direct payments, which is a clear green box issue. Can you talk to us about what your proposals do with respect to trade issues. How they might be viewed with respect to if we go to planted acres and others, that those fly in the face of some of this trade issue that we are dealing with? How do we walk that fine line of not creating another——

Mr. STALLMAN. Our deep loss proposal is basically an insurance area kind of revenue-based insurance product with an area coverage trigger. Based on the WTO rules, as long as that coverage does not exceed 70 percent, we would expect that to be green boxed. Coverage in excess of that would probably be notified as amber box.

The CHAIRMAN. All right.

Mr. Coley, do you think that there is any cotton policy we could put in place with the Brazilians, who have already said they don't like your STAX proposal? Is there anything we could do that you think would satisfy the Brazilians at any point?

Mr. COLEY. Mr. Chairman, I don't think any policy we put forth that the Brazilians are going to agree with. We at the Cotton Council feel that the policy we have come forth with, the STAX policy, and adjustments to the marketing loan more than justifies the result in this of the WTO rules based on what the ruling was.

The CHAIRMAN. And Mr. Brown, in addition to a wonderful bumper sticker, is there anything specifically with respect to crop insurance as it currently exists that you would ask us to look at to improve the products or the delivery?

Mr. BROWN. No, we just continue to ask for the 508(h) program in order to allow us as growers to have input in developing new products. We would like expanded coverage in all barley areas. Some areas now have certain programs not eligible in other areas, and we would like those programs that work well in some areas to be available to all barley growers.

The CHAIRMAN. I appreciate the panel.

Mr. Boswell for 5 minutes.

Mr. BOSWELL. Thank you, Mr. Chairman. I thank all of you for being here with us today. I recognize many of you and I appreciate you being here.

A couple of things that are kind of being discussed around, and I will tell you where I am. I think we need a farm bill, and some are saying well, let us just wait until the lame duck. I would like for you to comment on that.

And the second part is, we started about 2 years ago with Chairman Peterson and Chairman Lucas certainly kept things moving, I appreciate that very much, to deal with what could we do to take some reductions in our base, how we would handle it, and we have talked a lot about that before now and even today. Before the Super Committee met, we came up with, what was it, $23 billion in cuts. Now some are suggesting $33 billion. I think that it was significant, but what are your thoughts on it and how would you tell me and the Chairman here to proceed on your behalf? Anybody?

Mr. BOWLING. Mr. Boswell, Chip Bowling, National Corn Growers. Yes, I agree we need a farm bill now. We would like to get a farm bill done this year. If we don't, then we are going to suffer more severe consequences than we are already facing. So if there is any way we can get this thing done, we are willing to work with you.

Mr. BOSWELL. Be careful saying "any way."

Mr. BOWLING. I am sorry? Say that again.

Mr. BOSWELL. I said be careful about saying "any way" we get it done.

Mr. BOWLING. Let us get a farm bill done. I think all farmers across the country would be better served if there is a farm bill done this year.

Mr. STALLMAN. Mr. Boswell, I would suggest we move as expeditiously as possible, given the current conditions, to get a farm bill done, and farmers and ranchers really need certainty. I mean, some people think we wake up one morning and decide what we are going to go out there and plant. It doesn't work that way. We need some certainty about what the rules are going to be for 2013. I am highly skeptical of the lame-duck scenario because a lot of stuff gets proposed for lame ducks that never happens. I believe the budget situation and environment could be even worse in 2013. It is very important we move forward and try to get it done this year.

Ms. RAUN. And I will add to that, that for those of us in the South who plant our crops early in the fall—I mean early in the spring—we are putting our financing together in the fall, and if we don't know what the farm bill looks like, it is going to be very difficult to get financing in November and December when we typically get it so that we can begin planting early the next year.

Mr. BOSWELL. Nobody made any comment about the reduction that we proposed, the $23 billion and now some are suggesting it could be more. Any thoughts on that? Any thoughts?

Mr. STALLMAN. Well, I don't think this will come as a great surprise, but obviously less reduction is better. However, we are very cognizant as an organization of the fiscal situation and budget situation that exists in this country, and frankly realize we will have to deal with whatever the decisions are made.

Mr. BOSWELL. So where would you suggest we go if we have to add to the $23 billion we have already agreed to?

Mr. STALLMAN. I knew I was sticking my neck out when I said that. I would suggest that whatever the number is, we will have to look at that number in the context of the proposals that are on the table. I suspect some of the proposals from the Senate side will not fit as well with lower budget numbers and therefore we will have to come back and craft the best policy we can under the circumstances that exist. So we are supportive. We were supportive of the budget as proposed in the Senate. We understand the House may require further cuts and we will have to deal with those as they come.

Mr. BOSWELL. I believe I will declare that a very general answer, and I understand and appreciate that. It is tough, and those of us that have—there are quite a few of us, still on the Committee, that have had to plan and get ready and set up financing and all the things that have to go on. It is pretty capital intensive and a lot of risk. When reporters talk about the high prices, they don't talk about the cost of inputs, and that is unfortunate because they should, and the public would appreciate what we do in agriculture a lot better if they understood.

Anyway, I appreciate that, Mr. Chairman, and I yield back.

The CHAIRMAN. The gentleman yields back.

Mr. Huelskamp, 5 minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

A question for Mr. Vaughan. I appreciate your attendance at the farm bill field hearing in Dodge City, and I was trying to remember your nameplate because they had a list of all those commodities that you grow on your farm, the crops, and what were those five crops that you grow on your farm?

Mr. VAUGHAN. Corn, cotton, wheat, soybeans and sorghum.

Mr. HUELSKAMP. And my question would be, under the Senate bill, as you understand that, are there any one of those commodities you look at based on the farm program or two or three that you would say, "Hey, based on those changes that the Senate is proposing, I would be more likely or less likely to plant those particular crops?"

Mr. VAUGHAN. Under the Senate bill?

Mr. HUELSKAMP. Yes.

Mr. VAUGHAN. It would take a lot of analysis. I don't know that I could answer that today, that I would switch crop between, because without doing the analysis and knowing whether we will be able to sign up by crop or farm specific—well, I take that back. We do know in the Senate bill farm specific for the whole operation within the county. I can't answer that without doing the analysis, running the numbers on the various commodities.

Mr. HUELSKAMP. I don't know if you heard the other panel, but I thought the answer was, they had done the analysis and didn't think there would be much impact. I think it is probably yet to be determined by each individual farmer. I have some concerns of the wheat *versus* the corn analysis in my area or grain sorghum because in dryland crops, you don't have nearly as many choices. If there are significant program changes, that is going to impact that, and it would probably on your operation as well.

Mr. VAUGHAN. I would add that as producers look at this program at the ARC, they would have a tendency to look at it and go, well, what is my bias toward what prices are going to do in the next 10 years or 5 years, at least, during the life of the farm bill. They are going to look at it and go do I want to trigger—if this program is going to trigger payments relatively numerous times over the next 5 years, would I be better off to go that route. I have the opportunity to reset every year what my program is going to be. If corn is going to trigger a payment this year, I would plant corn, or wheat, I will plant wheat this year, and it is going to be based on my planted acres.

Mr. HUELSKAMP. Yes, absolutely.

This question would be for Ms. Raun, if I might. I appreciate your comments about rice producers. I am looking at the average cost of production *versus* the average price they are predicting. What happens if they are predicting 5 straight years of losses in the rice industry based on the current modeling? What happens with your producers, Linda?

Ms. RAUN. Well, under the Senate proposal, even without price reduction, you are going to lose acreage in the rice industry because in our industry, we have to have something that is bankable. We are going to be losing the direct payment, and we recognize that, and that really is the only thing right now that our lenders are using as our safety net. When you take that away, the ARC program does not give us a safety net that they will be able to lend us money on. I predict that in most situations, I know in our situation, when you take that program to the bank, they would not lend you money on rice. And in some areas, like where I farm, rice is our only option. It is the only crop that grows on the type of land we have. If you move to the Delta where rice is grown and they have the choice of some other crops, they will move to those other crops, I am sure, because they will not be able to get financed in rice. Now, if the prices decline, I would say that we will out be out of business and the rice industry will go away.

Mr. HUELSKAMP. What percent of the current acres probably would not be convertible to another particular crop? Do you have an estimate on that?

Ms. RAUN. You know, I don't know that number. Typically there are six states that grow rice. California, Texas and Louisiana have very few alternative crops. The Delta area, which would be Missouri, Mississippi and Arkansas, they have alternative crops on a lot of their land and they can switch to corn or beans if they need to. They already have, especially in Mississippi, just because of the price of beans and corn right now, market driven.

Mr. HUELSKAMP. Thank you, Linda.

I yield back the balance of my time.

The CHAIRMAN. Thanks.

David Scott, 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

Mr. Chuck Coley, I would like to hear from you regarding your desired changes to the commodities title to accommodate cotton. We hear from many of our cotton producers and some other commodity groups that the one-size-fits-all program in the Senate-passed bill will just not work for cotton. Can you explain what is fundamentally different about the structure of a cotton production operation, particularly in the Southeast in our part of the country, that would require a special program?

Mr. COLEY. Mr. Scott, as far as growing cotton, it is highly capital-intensive. One reason we felt like, as we talked about STAX, because of the budget constraints and the WTO Brazil case, it was designed for that fact. You know, also in the South, you have—peanuts is another commodity we grow in Georgia. The amount of machinery and the capital intensiveness of growing cotton is one reason that we think that the STAX program to prevent the shallow losses on years where we have an area-wide loss or a price decline would help prevent some of that when we have a bad sharp reduction in price

Mr. DAVID SCOTT of Georgia. Now, speaking of the STAX program, is that program able to coexist with what the Senate passed and potentially, with what the peanut growers would like to see and still all fit under the budget baseline that we have for this bill, or it is an all-or-nothing situation?

Mr. COLEY. Well, the Senate proposals for cotton and STAX pretty much had what we wanted in it except for two things, to drop the reference price of 65¢ and also lowered the coverage from 95 down to 90. Now, what the Senate passed, the Cotton Council and STAX, it would be what we want but we also understand what the Senate passed didn't help our other southern crops such as peanuts and rice.

Mr. DAVID SCOTT of Georgia. So you all can coexist with what the Senate passed but the peanut growers cannot?

Mr. COLEY. That is correct.

Mr. DAVID SCOTT of Georgia. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Scott, thank you.

I will run through a couple real quick questions real fast before we recess. We are not going to adjourn the Committee's hearing today because we will have another round tomorrow with different panels.

Chip, let me put you on the hook just a little bit. There was testimony you heard this morning where the ARC program and the shallow loss program doesn't work for all producers. What would corn growers feel about making sure that there were options available to other commodities if they wanted to choose something different. Are you guys opposed to a program where there are broader choices for folks to have, or do you want to stick just with this one program?

Mr. BOWLING. No, I would say that we favor—if there were options offered to other commodities that needed to make options, that we would work with them the best we could to make it work for everybody.

The CHAIRMAN. Okay. You may have said that in your testimony. I just wanted to make sure.

Mr. BOWLING. I did.

The CHAIRMAN. I thought you did. I just wanted to make sure we got that clear, that you are not insisting on a one-size-fits-all.

Mr. BOWLING. We are not. We have been willing since the inception of this 2012 Farm Bill to work with other commodity groups.

The CHAIRMAN. All right. Thanks, Chip.

Ms. Raun, under the Senate bill, the baseline for rice and wheat is dramatically reduced, and some could argue that is inequitable. What does it leave you guys with for the safety net loss of direct payments and others?

Ms. RAUN. Well, I think that is the problem that we have with the program, the ARC program, and if you look at our baseline, all farmers are willing—and this kind of goes to Mr. Boswell's question—we are all willing to do our part and take our cut. In the Senate proposal, our analysis shows that we are cutting our baseline 65 percent, and that basically takes away our safety net, and there is nothing left in there and that is what I was talking about with the bankers. There is nothing in there that would allow a banker to lend us money based on what is in that program when you take the direct payment away.

The CHAIRMAN. All right. Thanks, Linda.

Mr. Vaughan, in your written statement, you went through what you thought your projected expense would be with ARC, and just to get it clear on the record, do you think the ARC program passed by the Senate is an appropriate risk management tool that the House ought to consider?

Mr. VAUGHAN. No, sir. We are very concerned about several implications within the ARC, the fact that it does not cover sustained losses over a number of years like we saw from 1996 through 2005, that type of situation. The fact that it only covers a very narrow band from basically 89 percent down to 79 percent and then a factor of .65 at the individual level or .8 for county-level coverage. That is such a narrow band that there is this what has commonly become called the donut hole between your crop insurance and that little narrow band of coverage that a producer would be on the hook for, tremendous risk in that area. And then the fact that it competes against crop insurance, we just have tremendous concerns about the ARC proposal as a safety net tool.

The CHAIRMAN. All right. Thanks, Dee.

And Mr. Brown, finally, you mentioned some major differences within your state with producers. Again, this is a bit of a hanging curve ball question for you, but does this point to the need for producers to be allowed to choose risk management programs that best fit their own individual farming operation?

Mr. BROWN. Well, like I mentioned in my written testimony, in my state, we are so diverse because of climatic and elevation changes and things like that that options would be good, I guess, to meet individual farmer needs and conditions.

The CHAIRMAN. Thank you, Mr. Brown.

Before we recess, I invite the Ranking Member for any comments that he would like to make. Leonard?

Mr. BOSWELL. Thank you, Mr. Chairman, for having this. We all got it loud and clear that you need to be able to plan, and we have discovered that again. We didn't need to discover it but we have been affirmed, and I appreciate you taking time to come and share your time with us. It means a lot, and I know it takes you away from things that you do, and I appreciate it.

Thank you very much, and I yield back to the Chairman.

The CHAIRMAN. Thanks, Mr. Boswell.

I also recognize that you are taking after-tax dollars and to come to D.C. and testify on behalf of an industry that you are all deeply involved with, and I appreciate that. I also know that there is a tension between simplicity, which we call for in one of our five steps, that you can explain these programs to your banker, to your lenders and others, which leads you toward a one-size-fits-all, and the more options you have, the more choices you have, the more complicated and difficult this is. But my personal opinion is, and based on some of the comments we have heard this morning, that a one-size-fits-all is not going to work and that you would be willing to put up with the complexity of having more choices and having more opportunities to look at risk management tools that fit your individual circumstances better than perhaps other folks even within your same commodity group.

Again, I appreciate you folks being here this morning. This hearing of the Subcommittee on General Farm Commodities and Risk Management will stand in recess until 10 o'clock tomorrow when we will hear testimony from panels three and four. We are adjourned.

[Whereupon, at 12:26 p.m., the Subcommittee recessed, to reconvene at 10:00 a.m. Thursday, May 17, 2012.]

FORMULATION OF THE 2012 FARM BILL (COMMODITY PROGRAMS AND CROP INSURANCE)

THURSDAY, MAY 17, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:03 a.m., in Room 1300 of the Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Subcommittee] presiding.

Members present: Representatives Conaway, King, Neugebauer, Schmidt, Gibbs, Austin Scott of Georgia, Crawford, Roby, Huelskamp, Hultgren, Hartzler, Schilling, Lucas (*ex officio*), Boswell, McIntyre, Walz, Kissell, David Scott of Georgia, Peterson (*ex officio*), and Costa.

Staff present: Bart Fischer, Tamara Hinton, Kevin Kramp, Matt Perin, Matt Schertz, Nicole Scott, Wyatt Swinford, Suzanne Watson, Alan Markey, John Konya, Liz Friedlander, Craig Jagger, C. Clark Ogilvie, Anne Simmons, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. We are reconvening from yesterday's hearing, the chair requests that Members who have opening statements submit those for the record. And now I would like to introduce our third panel of witnesses this morning, Mr. Erik Younggren, President, National Association of Wheat Growers, Hallock, Minnesota; Mr. Armond Morris, Chairman of the Southern Peanut Farmers Federation, from Irwinville, Georgia; Mr. Roger Johnson, President of the National Farmers Union here in Washington, D.C.; Mr. J.B. Stewart, Vice Chairman, National Sorghum Producers from Keyes, Oklahoma, and a constituent of our Chairman, Mr. Lucas; Mr. Steve Wellman, who is President of the American Soybean Association from Syracuse, Nebraska; and Mr. Jim Thompson, Chairman, USA Dry Pea and Lentil Council from Farmington, Washington. Gentlemen, thank you for being here this morning.

Mr. Younggren, your 5 minutes starts when you are ready.

STATEMENT OF ERIK YOUNGGREN, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, HALLOCK, MN

Mr. YOUNGGREN. Chairman Conaway, Ranking Member Boswell, and Members of the Committee, thank you for the opportunity to address you today. I am Erik Younggren, a fourth-generation wheat farmer from Hallock, Minnesota. I am also serving as President of the National Association of Wheat Growers.

We know you, leaders of the full Committee and your staff, have been working hard over the past year toward reauthorizing farm and food policy legislation. We appreciate your commitment to working in a bipartisan and bicameral fashion throughout this process, and we appreciate your dedication to providing a well functioning farm safety net to the farmers who supply our nation with food, feed, fiber, and fuel.

Wheat growers around the country are well aware of the reality of our country's fiscal situation and are committed to doing our part to help right our fiscal house. We know a functioning and solvent U.S. Government is one of many factors that helps us to maintain thriving farms, strong businesses, and a secure domestic food supply. We also know that fiscal integrity of our nation is important to the rest of the world to which we export about ½ of our wheat crop each year.

We are also aware that, starting in August, wheat farmers in the South will be planting their 2013 crop. These farmers and their bankers will want to know with certainty what sort of safety net programs will be available to them. With ever-increasing input costs, these farmers are making a huge financial commitment and it is vital that you and our other agriculture leaders provide program certainty for these growers who are trying to make responsible business decisions.

Wheat is grown on some of the most risky land in the country facing weather hazards, highly variable yields, and price swings based on a world market. Despite this variability, wheat country provides a steady, safe supply of one of the most widely consumed food staples on the planet, and has made the United States the most reliable supplier of wheat in the world. These factors make it all the more important for wheat farmers to have a farm safety net that is dependable, bankable, and defensible.

Our highest priority for Federal investment in farm safety net programs is a portion of crop insurance premiums subsidized by the Federal Government, the public part of one of the most well functioning public-private partnerships. More than 85 percent of non-irrigated wheat acres planted are covered by crop insurance, and NAWG strongly opposes any reductions to the baseline available for the Federal Crop Insurance Program.

To enhance the Federal Crop Insurance Program, we request that you make the enterprise unit subsidies permanent, provide authority for growers to purchase a combination of individual and group risk coverage policies, address the declining yield issue by allowing for 70 percent of the county yield to be incorporated as a plug, and allow RMA to deliver margin protection instead of just yield or yield and price protection.

While crop insurance protects us year after year, we still need strong Title I options to help us deal with issues beyond our control. As you work to refine risk management programs in Title I of the farm bill reauthorization, NAWG encourages you to keep a few basic principles in mind.

NAWG supports reallocation of funding away from direct payments to an alternative Title I safety net program. We also support multiple safety net programs, including a disaster program in Title I. We recognize different production areas of the country rely on different types of farm programs to provide a safety net. However, we call on you to make sure that changes to existing programs or newly created programs do not affect planting decisions, and allow producers planting flexibility, which have been central tenets to the last three farm bills.

NAWG supports a revenue-based program modeled on the ACRE and SURE Program with an on-farm trigger and coverage by commodity as part of a multi-legged safety net. That being said, we recognize and are grateful for concerns from the leaders of the House Agriculture Committee about protecting farms and farm businesses in times of low prices. As a farmer, I share those concerns and recognize the risks of changing the existing safety net so dramatically that it removes the price protection currently available in Title I. We recommend that any price protection included in the 2012 Farm Bill incorporates the principles that have made existing Title I programs successful, including being designed to not destroy planting decisions and to be WTO-friendly.

Additionally, any reductions in payment caps or changes to the *actively engaged in farming* definition would be alarming for farmers who have developed business plans based on existing law. We ask you to recognize that family farms do need to utilize multiple business structures to protect both the family and the farm.

It is my analysis that groups that want to tie crop insurance to conservation compliance believe farmers like crop insurance enough that they will do anything to keep it. However, the significant number of acres that go uncovered every year refutes this. Any regulation that disincentivizes producers from participating in the Federal Crop Insurance Program shifts more risk to farmers in highly variable areas and leaves more of our nation's food supply and the farms that provide it in precarious situations.

If you take anything away from my testimony today, take this: it is of the utmost urgency to our farmer members that you and your colleagues in the Senate approve new farm legislation soon. On behalf of the National Association of Wheat Growers, I appreciate your attention to my perspective on our nation's agricultural risk management programs. We are committed to working with you and the other stakeholders as you outline a path forward through these serious and uncharted fiscal times. And I will be happy to answer any questions you may have.

[The prepared statement of Mr. Younggren follows:]

PREPARED STATEMENT OF ERIK YOUNGGREN, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, HALLOCK, MN

Chairman Conaway, Ranking Member Boswell and Members of the Committee, thank you for the opportunity to address you today. I'm Erik Younggren, a fourth-generation wheat farmer from Hallock, Minn. I work with two of my cousins on our family's farm and have been an active part of the farm's management for 17 years.

I am also currently serving as President of the National Association of Wheat Growers.

We know you, Members and leaders of the full Committee and your staff members have been working over the past year toward reauthorizing farm and food policy legislation. We appreciate your commitment to working in a bipartisan and bicameral fashion throughout this process, and we appreciate your dedication to providing a well-functioning farm safety net to the farmers who supply our nation with food, feed, fiber and fuel.

Before I begin talking about policy priorities, I want to draw your attention to two encompassing, environmental factors that are influencing what I say today and the work you are preparing to undertake as a Committee.

Wheat growers around the country are well aware of the reality and consequences of our country's fiscal situation and are committed to doing our part to help right our fiscal house. We know a functioning and solvent U.S. Government is one of many factors that helps us to maintain thriving farms, strong rural businesses and a secure domestic food supply. We also know the fiscal integrity of our nation is important to the rest of the world, to which we export about half of our wheat crop each year.

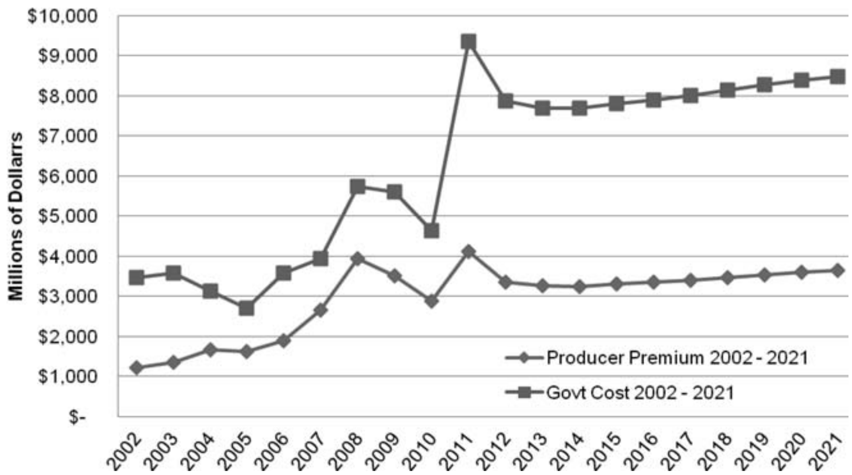
We are also strongly aware that, starting in August, wheat farmers in the South will go to their fields to plant their 2013 crops. These farmers and their bankers will want to know with certainty what sort of safety net programs will be available to them. With ever increasing input costs, these farmers are making huge financial commitments, and it is vital that you and our other agriculture leaders provide program certainty for these growers who are trying to make responsible business decisions. If you take anything away from my testimony today, take this: **it is of the utmost urgency to our farmer-members that you and your colleagues in the Senate approve new farm policy soon.**

Primary Farm Risk Management Through Crop Insurance

Agriculture is arguably the industry most susceptible to natural disasters. While science and technological advancements have enabled producers to increase production efficiencies, farmers and farm businesses are still uniquely vulnerable to crop production losses from weather hazards, insects and other uncontrollable events. Today, farmers are partially guarded from the worst of these threats by a strong crop insurance program, which girds them against inevitable acts of Mother Nature and volatile price swings. By helping to ensure the stability of U.S. farmers, crop insurance helps to ensure a stable food supply—a necessary government responsibility that allows society and the larger economy to grow and allows us to protect ourselves against threat at home and abroad.

The Federal Crop Insurance Program provides risk management tools to address production and revenue losses. Today, approximately 75 percent of total policy premiums come from revenue protection policies, while the remaining 25 percent come from yield protection policies. Since the inception of Federal crop insurance in the early 1930s, the program has become the most important cost-share, farm risk management tool available. On average, the Federal Government contributes 60 percent of crop insurance premiums, while a producer pays 40 percent out of pocket.

Federal Crop Insurance Producer and Taxpayer Premium Cost

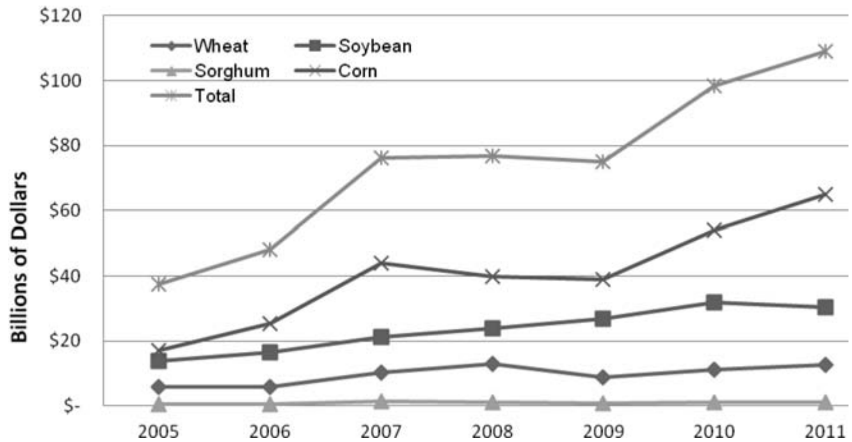


(Source: 2002–2011 Actual obtained from FCIC, 2012–2021 Projections obtained from CBO.)

Government subsidization of the Federal Crop Insurance Program is absolutely necessary to maintain affordable and competitive policies for America's farmers. The high level of risk involved with production agriculture prohibits private entities from writing agricultural policies, which have extremely limited and risky profit potential. Without government involvement, private companies would target high-profit, low-risk areas and leave highly vulnerable regions, including many wheat growing areas, without sufficient coverage options. As the crop insurance structure is now organized, private companies are able to write policies for regions and states that have historically shown losses. The public-private partnership ensures that all areas have equitable access to crop insurance.

The partnership between government and private industry is also vital to maintaining the level of service necessary for the program to be truly effective on the farm. Private companies are able to be more flexible in meeting their customers' needs and providing quick, local and comprehensive solutions for farmers, while the government provides oversight and enhanced security. Private agents have the ability to travel more extensively and operate longer hours than government employees, which means farmers can run their business around their farms' schedules not Farm Service Agency (FSA) office hours. Housing and storing data within the Risk Management Agency (RMA) system enhances security and allows producers to keep track of sensitive information. All of this benefits the U.S. taxpayer, too, because the government is not responsible for the investment necessary to hire and maintain a staff of insurance agents in every county in the United States.

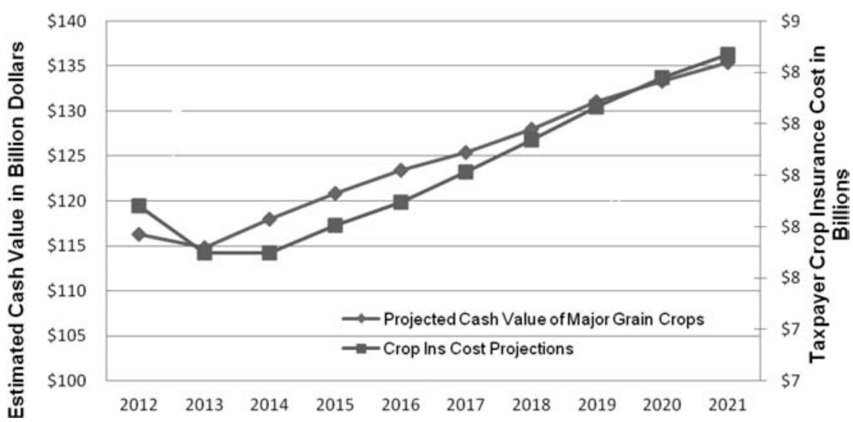
Cash Value of Major Grain Production Covered by Crop Insurance



(Source: USDA Risk Management Agency.)

The most recent Congressional Budget Office (CBO) projections predict that the current crop insurance program will cost an average of $7.7 billion per year through 2021. Compared to the 2011 cash value of major U.S. grain crops enrolled in the program, more than $109 billion, public investment in crop insurance shows an excellent return to the U.S. economy. That level of return on investment is expected to increase over time. Over the next 10 years, the cash value of crops is expected to increase, and yet estimates are that Americans will pay less than 5¢ per person per day to maintain current crop coverage options and protect the domestic food supply.

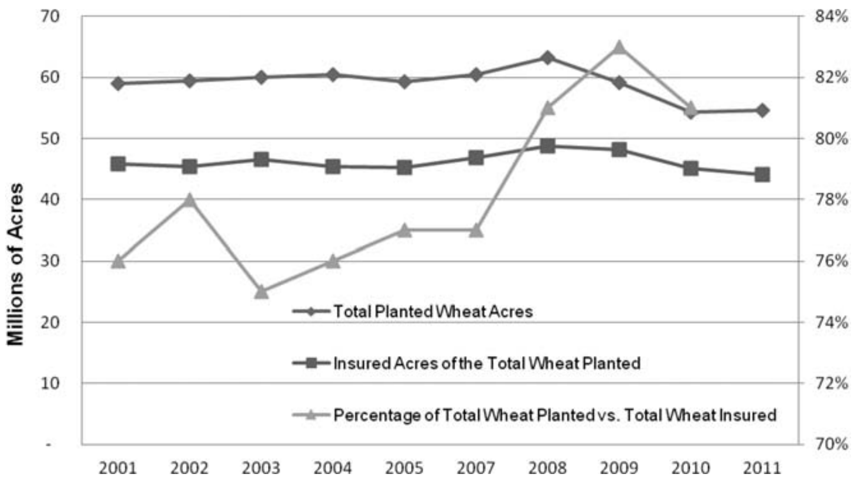
Crop Insurance Cost and Total Estimated Cash Value of Major Grain Crops



(Source: Feb. 2012 USDA Long-term Projections, March 2011 CBO Crop Ins. Baseline Projections.)

As crop insurance has become more affordable and coverage options have expanded, a larger percentage of productive acres have been enrolled in the program, making the Federal Crop Insurance Program one of the most widely-used risk management tools for row crop producers. For wheat, this is especially important, with wheat acres insured through the program in 41 of 50 U.S. states.

U.S. Historical Total Planted Wheat Acres *vs.* Total Insured Acres



(Source: USDA Risk Management Agency "State Profiles" *2006 Data Unavailable*.)

Crop insurance provisions made in the Agriculture Reform, Food and Jobs Act of 2012, recently approved by the Senate Agriculture, Nutrition and Forestry Committee, provide growers additional options for increasing their protection through public-private partnership, in which they and the government share premium costs. Some of these provisions include: authorizing supplemental coverage for farmers to buy county-level revenue policies in addition to individual coverage; authorizing separate enterprise units for irrigated and non-irrigated crops; and authorizing an increase in the transitional yield (T-yield) plug from 60 percent to 70 percent. NAWG strongly supports these improvements and would like to see the House Committee on Agriculture include them in its version of the legislation as well.

Crop insurance historically has provided yield protection and, more recently, revenue protection. However, in consecutive years of poor yields, our farmers have seen protection decrease while premiums have remained the same or risen. While RMA and the Senate's farm bill legislation have been responsive in helping farmers cope with prolonged years of poor yields, the only real way to fix the problem is for a farmer to grow his way out of the so-called "APH hole" through improved varieties and management practices, both of which require long-term investments in agriculture research.

Traditional Title I Programs

While crop insurance has been an important tool for our farmers, it does have its weaknesses, some of which have been ameliorated by Title I programs. NAWG's farm policy priorities have always been to preserve AND enhance the farm safety net. Beginning in the 1996 Farm Bill, we began to see holes in our protection because our actual production history (APH) declined with bad weather years. In the 1990s, this problem was patched with the direct payment and later an emergency double direct payment and *ad hoc* disaster assistance. As farmers and businessmen, we realized this was not a good path to continue with agricultural policy. In the 2008 Farm Bill, mechanisms were put into place to help farmers deal with year-to-year revenue risk, through the ACRE program; single year disasters, through the SURE program; and multi-year price risk, through the countercyclical program.

In the past, direct and countercyclical payments (DCP) have been essential to wheat growers because these payments were predictable from year to year and provided long term stability for growers, their bankers and their communities. Direct payments worked especially well for wheat farmers because other price-based programs were not structured in a way that provided regular support in times of loss.

The combination of direct payments and crop insurance enables farmers to manage risk to the downside; because of crop insurance, we are able to forward contract our grain to maximize good pricing opportunities, and because of the cash flow the direct payment provides, we are able to lock in our inputs when the price is right. The banker likes this program because it allows the farmer flexibility and provides her with certainty that the farmer will be able to cover at least some of his costs. The countercyclical side of the DCP program, while overlooked in recent years because of high prices, was also an important part of the last farm bill package because it gave farmers and bankers assurance that help would be available in years of tragically low prices.

We realize that the DCP program as it exists today is a thing of the past as we move forward with writing policy for 2013 and beyond, but NAWG would like to see a Title I program that is as dependable and bankable for farmers and that allows them to plan and make adequate planting decisions based on market conditions.

Created in the 2008 Farm Bill, ACRE is a revenue-based plan that allows growers to still receive direct payments, but reduced these payments by 20 percent. To receive an ACRE payment, two triggers have to be met: first, the actual state revenue for a supported crop during the crop year has to be less than the state-level revenue guarantee amount and, second, an individual farm's actual revenue for a supported crop has to be less than the farmer's benchmark revenue. The second trigger theoretically is set to keep farmers from receiving payments when they did not have a sufficient loss, even when the state as a whole sustained a loss in revenue for the crop.

The ACRE program attempts to soften volatility from 1 year to the next. By incorporating the Olympic average of the previous 5 years' market prices, ACRE provides farmers with a soft landing in times of year-to-year price declines, and delivered a safety net for a good number of wheat farmers through the life of the last farm bill. This program did provide a cushion for wheat farms through the price declines from historic highs in 2008. We believe this program would have been more effective if the trigger had been as close to the farm as possible, particularly since much of our wheat is grown in the large, western states that have quite diverse growing regions. We also would be remiss not to call attention to the confusion created by the ACRE program, which was so problematic for farmers, landlords and local FSA offices it impeded the program's overall effectiveness.

The SURE program was also created in the 2008 Farm Bill. This program was frequently used by wheat growers and provided a safety net during times of disaster. In order to be eligible for SURE, producers had to:

- produce in a disaster county or contiguous to a disaster county and suffer a ten percent production loss,
- suffer a 50 percent production loss,
- satisfy the Risk Management Purchase Requirements (RMPR), and
- comply with other general eligibility requirements.

Wheat farmers found SURE beneficial because it used the current crop insurance price in the revenue guarantee, and if a farmer qualified, it also incorporated the National Average Market Price, which is a true representation of what farmers receive. Additionally, SURE covered an individual farm down to the crop insurance level so there was no overlap with crop insurance, even while the program incentivized farmers to buy up their crop insurance coverage. SURE did have downsides, including coverage on a whole-farm, non-crop-specific level and extremely delayed payments after a disaster. However, on the whole, wheat farmers, their bankers and suppliers found it a great benefit to non-diversified operations.

Revenue-Based Options in Title I

NAWG supports a revenue-based program modeled on the ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net. Coverage close to the farm provides a safety net with fewer holes for farms with losses than area-level coverage. Additionally, although programs that provide whole-farm protection may sound appealing, it is important to note that they discourage diversification, one of the most basic tenets of risk management by producers.

Over the past year, NAWG has met with fellow producer groups and House and Senate staff in efforts to find a new set of policies that can provide a safety net that is as strong as our current polices, but at a lower cost to American taxpayers. Since the Senate Agriculture, Nutrition and Forestry Committee marked up its version of the bill, we have been examining how the Ag Risk Coverage, or ARC, program might work for wheat farmers. We appreciate the work the Senate did in crafting a program that would work with crop insurance to cover a band of farmers' revenue, building on current crop insurance policies.

The Senate program is a single, risk-based coverage program that aims to protect against both price and yield losses. Farmers can make a one-time coverage choice between individual, by commodity level or county, by commodity level. Payments under ARC would be made when actual revenue is less than the benchmark revenue calculated by using a 5 year Olympic average.

Because the ARC program only covers between 79 percent and 89 percent of a farm's expected revenue, there is a donut hole between a farmer's insurance coverage level and the bottom end of the ARC program. To fill in this hole, the Senate bill includes in the crop insurance title a supplemental insurance coverage option (SCO) that allows producers to purchase coverage on a county yield and loss basis between their crop insurance coverage and 79 percent, or up to 90 percent for those farmers not participating in ARC. Payments under this option would trigger only if losses exceeded 21 percent for the producers enrolled in ARC and ten percent for all other producers who purchase this coverage. We believe SCO coverage would allow cost-effective protection against shallow losses beyond what the government can afford to provide in ARC. We realize that all farmers around the country and of various crops have different risk profiles, and this program would allow them to work with their agents to customize coverage for their unique operations.

While we appreciate the expansion of crop insurance, not every county has group insurance available because of limited National Agricultural Statistics Service (NASS) data availability. We appreciate the authority granted in the Senate's legislation to allow RMA to utilize their own yield and price data to supplement the NASS data previously allowed. With this expanded authority, we believe county-level SCO protection would be available in most areas of the country.

Other Title I Options

While NAWG supports a revenue-based Title I program, we are also cognizant of the concerns expressed in the House about protection during consecutive years of low commodity prices.

Wheat is a unique crop, grown in some of the riskiest areas of the country and in rotation with nearly every other program crop and is harvested many months out of the year. The price wheat farmers are paid depends not only on market factors, but also on quality characteristics and wheat class, which are not pertinent for some program crops. Therefore, we realize it is important for growers to have choices, which can be provided in a multi-legged plan.

Since we export so much of our wheat crop, wheat growers are also very concerned about distortions of the market from any price protection program and, therefore, compliance with World Trade Organization (WTO) agreements. We feel it best to keep any price protection program decoupled from current year planted acres.

However, we realize that the base acres utilized in farm programs for almost 30 years are outdated and irrelevant. Most farms have changed dramatically since base was set and many do not grow the crops for which their fields have base. We would recommend that this Subcommittee update base acres for any Title I price protection program to more accurately represent what is planted on the farm and to maintain WTO compliance.

Review of NAWG's Risk Management Policy Priorities

Wheat is grown on some of the most risky land in the country, facing weather hazards, highly variable yields and price swings based on a world market and quality-related factors beyond our control as farmers. Despite this variability, wheat country provides a steady, safe supply of one of the most widely consumed food staples on the planet and has made the United States the most reliable supplier of wheat in the world. These factors make it all the more important for wheat farmers to have a farm safety net that is dependable, bankable and defensible.

Our highest priority for Federal investment in farm safety net programs is the portion of crop insurance premiums subsidized by the Federal Government, the public part of one of the most well-functioning agriculture public-private partnerships. More than 85 percent of non-irrigated wheat acres planted is covered by crop insurance. We believe crop insurance is essential to the farm safety net and to the reliable production of our nation's food supply.

Perhaps one of the strongest testaments to crop insurance is the performance of the agricultural industry in 2011. Despite extreme weather losses and market volatility faced over the past 12 months, U.S. agriculture is poised to continue into a new year as one of the strongest segments of our nation's economy. This performance in the face of trial has made the crop insurance program the top farm policy priority for most major farm groups, including our commodity friends. **NAWG strongly opposes any reductions to the baseline available for the Federal Crop Insurance Program.**

To enhance the crop insurance program, we request that you:

- make permanent the enterprise unit subsidies;

- provide authority for growers to purchase a combination of individual and group risk coverage policies such as the Total Coverage Option introduced by Rep. Randy Neugebauer or the SCO coverage authorized in the Senate Agriculture Nutrition and Forestry Committee's legislation;
- address the declining yield issue by allowing for 70 percent of the county yield to be incorporated as a plug; and
- allow the Risk Management Agency to deliver margin protection instead of just yield or yield and price protection.

While crop insurance protects us year after year, we still need strong Title I options to help us deal with issues beyond our control. As you work to define risk management programs in Title I of the farm bill reauthorization, NAWG encourages you to keep a few basic principles in mind:

First, we ask you to outline a revenue program that is understandable and builds on the lessons farmers have learned from the revenue crop insurance products in the 2008 Farm Bill. Even with the inception of ACRE and SURE, it took USDA, farmers and all of our advisors much study and research to determine how they would work on the farm. Our farmers, extension specialists, bankers, landlords and other farm partners need to be able to understand these programs so we can appropriately adapt our risk management plans.

NAWG supports reallocation of funding away from direct payments to an alternative Title I safety net program. We also support multiple safety net programs, including a disaster program in Title I. We recognize different production areas of the country rely on different types of farm programs to provide a safety net. However, we call on you to make sure that changes to existing programs or newly-created programs do not affect planting decisions and allow producers planting flexibility, which have been central tenets to the last three farm bills.

NAWG supports a revenue-based program modeled on programs in the 2008-authorized ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net. Coverage close to the farm provides a safety net with fewer holes for farms with losses than coverage at the state, crop reporting district or county levels. Furthermore, we would request that any revenue-based program cover as large a portion of our planted acres as possible.

While we support a revenue-based program in Title I, we recognize and are grateful for concerns from the leaders of the House Agriculture Committee about protecting farmers and farm businesses in times of low prices. As a farmer, I share these concerns and recognize the risks of changing the existing safety net so dramatically that it removes the price protection currently available in Title I. We recommend that any price protection included in the 2012 Farm Bill incorporates the principles that have made existing Title I programs successful, including being designed not to distort planting decisions and to be WTO-friendly, therefore decoupled from current plantings.

Any farm policy program should be designed to help farmers minimize the risks they face. Any reductions in payment caps or changes the definition of active farming would be alarming for farmers who have developed business plans based on existing law. We encourage your recognition that family farms do need to utilize multiple business structures to protect both the family and the farm and allow it to transfer to the next generation when appropriate.

It is my analysis that groups that want to tie crop insurance to conservation compliance believe farmers like crop insurance enough that they will do anything to keep it. However, the significant number of acres that go uncovered every year refutes this. Any regulation that disincentivizes producers from participating in the crop insurance program shifts more risk to farmers in highly variable areas and leaves more of our nation's food supply and the farmers that provide it precarious positions. NAWG believes we need to keep as many farmers in the crop insurance program as possible. In fact, RMA has been working to expand crop insurance to under-served areas and farmers. Additional restrictions to participation are farm harmful to that long-term goal.

Most importantly, the nation's wheat farmers call on you to reauthorize this legislation this year, before the expiration of the current bill on Sept. 30. This will provide reliability for the nation's food supply as our wheat farmers go to the fields in August and September to plant the 2013 winter wheat crop.

Conclusion

On behalf of the nation's wheat farmers, I appreciate your attention to my perspective on our nation's agricultural risk management programs and that of the National Association of Wheat Growers. We are committed to working with you and the vast array of other stakeholders to Federal agriculture programs as you outline a path forward through these serious and uncharted fiscal times. I am happy to answer any questions you have of me or my Association, now or at a later date.

The CHAIRMAN. Thank you, Mr. Younggren.

Mr. Morris, your 5 minutes begins when you want it to.

STATEMENT OF ARMOND MORRIS, CHAIRMAN, SOUTHERN PEANUT FARMERS FEDERATION, IRWINVILLE, GA

Mr. MORRIS. Good morning, Chairman Conaway, Members of the Subcommittee. My name is Armond Morris. I am a peanut producer from Irwin County, Georgia. I am Chairman of the Southern Peanut Farmers Federation and Georgia Peanut Commission. I am here today representing a federation whose growers produce 75 percent of the U.S. peanuts. I serve on Congressman Austin Scott's Agricultural Advisory Committee and also Senator Saxby Chambliss' Agricultural Advisory Committee.

We recognize that all Federal programs will be scrutinized and the budget cuts will be made. Peanut producers want to do their fair share. The debate today in Congress is whether we will have a farm bill that works for one or two regions of the country, and one or two crops, or a national farm bill that works for all regions of the country and all crops.

For the last several farm bills, peanut producers have relied on the University of Georgia National Center for Peanut Competitiveness for farm policy economic analysis. The Center has 22 U.S. representative peanut farms established and maintained by the Center. The farm organization members of the House, Senate, and public institutions offer farm policy concepts for the 2012 Farm Bill. The Center would analyze each proposal, including multiple scenarios throughout the 22 U.S. representative farms dispersed throughout the nation.

Each of these alternatives or revenue-type programs was found not to work on the 22 representative farms. I recognize that some organizations believe that a one-size-fits-all revenue program will work for the U.S. agricultural economy. I do not agree. Our cost structure and equipment needs alone are significantly different than the Midwest. We believe producers need a policy choice to manage risk, revenue protection, price protection, and crop insurance.

We support producers having a choice between a countercyclical-type program with a target price of $534 per ton and a revenue program in consultation with the Center and analysis of the 22 representative farms. We believe this target price will serve as protection during periods of low prices. USDA estimates that the market price for peanuts is over $1,000 per ton. I assure you, just as any peanut producer or major buyer of peanuts would, that a $534 per ton target price will not increase peanut production or acreage. Please also note that we have to rotate peanuts.

At the same time, peanut producers need a revenue program that is a real substantial choice for producers. We should include a reference price of $534 per ton and a world market price determined by a Rotterdam price analysis.

Although we asked the Senate Agriculture Committee to include a producer-choice-type program, countercyclical program, or revenue program in their legislation, the Committee failed to do so. We asked the Center to evaluate the Senate Agriculture Committee's 2012 Farm Bill. The Center determined that the Senate agricultural risk coverage program was not beneficial to peanut producers. The Senate Committee's period to determine a farmer's eligible acres is 2009 to 2012. This change will adversely affect peanut producers in Oklahoma, Texas, and Virginia where there has been significant changes in peanut acreage since 2002.

The Center applied the Senate's ARC Program to peanut producers for 2013 through 2017 crop years. The analysis indicated, except for one farm, that no representative farm had any payment during the 2012 Farm Bill.

I also grow other commodities, including corn and wheat. In examining the Senate's ARC Program on my farming operation, I do not see how it will help my farm maintain economic viability with respect to corn, wheat, relative to the current program. We looked at the county levels in other counties and none of these would get a payment. So I would like to say that we ask the House Agriculture Committee to draft a farm bill that works for farmers across the nation and not just one or two regions of the country. This Committee has a long history of developing U.S. farm policy in a bipartisan manner. I know you and many Members of this Committee and am confident that no farm bill will move forward that doesn't represent the interests of all U.S. farmers and ranchers. We believe Chairman Lucas and Ranking Member Peterson were on the right track last year with their budget recommendations on the producer choice.

In closing, I appreciate the opportunity to appear before the Subcommittee today. Thank you.

[The prepared statement of Mr. Morris follows:]

PREPARED STATEMENT OF ARMOND MORRIS, CHAIRMAN, SOUTHERN PEANUT FARMERS FEDERATION, IRWINVILLE, GA

Good morning, Chairman Conaway, Members of the Subcommittee, my name is Armond Morris. I am a peanut producer from Irwin County, Georgia. I am Chairman of the Southern Peanut Farmers Federation (Federation) and the Georgia Peanut Commission. The Federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association, and the Mississippi Peanut Growers Association. I am here today representing the Federation whose growers produce approximately 75% of all U.S. peanuts.

I have been a peanut producer for 45 years. I farm over 2,000 acres of peanuts, cotton, corn, wheat, rye, and watermelons. I am active in local, state, and national agricultural organizations and am a graduate of the Abraham Baldwin Agricultural College. I serve on U.S. Congressman Austin Scott's Agricultural Advisory Committee and Senator Saxby Chambliss' Agricultural Advisory Committee.

I appreciate the opportunity to testify today on Federal peanut policy as you formulate the 2012 Farm Bill. Our family's livelihood is based on agriculture which is influenced by farm policy.

The farm bill provides farmers, agribusinesses, and financial institutions as much certainty as possible in an industry that has a very large number of variables impacting profits and losses. A 5 year farm bill allows all segments of agriculture the opportunity to achieve the economic impact that all of us desire. We certainly recognize the budget, geographic differences and other concerns that you face in drafting national farm bill legislation.

I do want to make one point that I believe is very important to the Subcommittee. I, like many farm organization leaders, attend many grower meetings. What has been evident in the peanut producer meetings that I have participated in is that peanut producers recognize that our country is in a fiscal crisis. They recognize that all Federal programs will be scrutinized and that budget cuts will be made. Peanut producers want to do their fair share.

The debate today is not whether farmers will take significant cuts in farm programs; we know this will take place. The debate today in Congress is whether we will have a farm bill that works for one or two regions of the country, and one or two crops, or a national farm bill that works for all regions of the country, and all crops.

When I began farming, the peanut industry was driven by a Federal supply-management peanut policy. In 2002, peanut growers met with the House Agriculture Committee leadership and asked the Committee to move our program policy from the peanut quota program to a marketing loan type program. This marketing loan program is what we have today. It has been very successful for our industry. We support the current program as included in the 2008 Farm Bill but we recognize that there is a significant effort to eliminate direct payments.

All of our policy analyses assume that direct payments are eliminated. For the last several farm bills, peanut producers have relied on the University of Georgia's National Center for Peanut Competitiveness (Center) for farm policy economic analyses. The Center has 22 U.S. Representative Peanut Farms established and maintained by the Center. As farm organizations, Members of the House and Senate, and public institutions offered farm policy concepts for the 2012 Farm Bill, the Center would analyze each proposal, including multiple scenarios through the 22 U.S. Representative Farms dispersed throughout the Peanut Belt (Virginia to New Mexico).

Each of these alternative or revenue type programs was found not to work on the 22 Representative Farms. I recognize that some organizations believe that a one-size-fits-all revenue program will work for the U.S. agricultural economy. I do not agree. Our cost structure and equipment needs alone are significantly different than the Midwest with our peanut producers requiring very specialized equipment. Why don't these revenue proposals work for peanuts?

- There is No Consideration for irrigated *versus* non-irrigated production practices. There are significant yield differences for peanuts—at least 1,100–1,400 lbs—based on Risk Management Agency (RMA) data and the U.S. Representative Peanut Farms. The Center's 2011 preliminary data indicated that the yield differences could reach 3000 lbs and higher per acre in Georgia. National Agricultural Statistical Service (NASS) county yields do not separate out the differences between irrigated and non-irrigated peanuts.

  The Senate Agriculture Committee bill allows the U.S. Department of Agriculture to make this determination, but it is not mandatory.
- There is NO revenue insurance program for peanuts—all proposals use revenue insurance as the core part of their program where a producer is covered at the 65–85% level. Peanuts had a GRIP yield insurance program, but no peanut farmers used it so RMA discontinued the program. This implies county yield based programs do not work for peanuts.

  The Senate bill includes a revenue insurance program but the Congressional Budget Office scores the program at approximately $300 million. Peanut growers have been working with the U.S. Department of Agriculture (USDA) and Agrilogic on a peanut revenue insurance program since Fall of 2009. On May 10, 2012, the Federal Crop Insurance Corporation (FCIC) Board of Directors voted in the affirmative to approve the peanut revenue insurance package to be submitted for external review. The expectation is that if the FCIC Board of Directors approves it at their August or September Board meeting, the peanut revenue insurance package should be available for the 2013 peanut crop season.
- Peanuts do not have any source for a predicted harvest price.
- Peanuts DO NOT and WILL NOT HAVE A FUTURES MARKET like other row crops. Multiple land-grant university studies and efforts by the U.S. Department of Agriculture have all concluded that a futures market is not an option for peanuts.
- The Rotterdam price series with appropriate conversion formula for peanuts is the best source, not NASS. Our own U.S. Government used the Rotterdam price series during the GATT trade negotiations and the USDA Foreign Agricultural Service reports that price series.
- Utilizing NASS–CRD and NASS-County yields WILL NOT work for peanuts.

  None of the six Georgia Representative Farms analyzed trigger on either the CRD criteria or the county level using existing NASS yields. No CRD district that has one of the Center's Representative Peanut Farms outside the Southeast would trigger a payment. Peanuts have a greater variability of yields within a county and CRD than other row crops excluding cotton.

- An Olympic average does not protect a farm from a period of depressed prices or weather related depressed yields.
- Given the 2011 peanut season, none of the non-irrigated producers who had between no yields to 1,000 lbs would have been helped by any of the proposed revenue proposals.

  The Senate ARC proposal will trigger a couple of farms with non-irrigated peanuts and extremely low yields, below 1,000 pounds.

If we eliminate direct payments, what will work for peanut producers? After conferring with the Center over the last 9 months, we believe producers need a policy choice to manage risk—Revenue Protection, Price Protection and Crop Insurance. We support producers having a choice between a counter cyclical type program with a target price of $534 per ton and a revenue program. In consultation with the Center and analysis of the 22 representative farms, we believe this target price will serve as protection during periods of low prices. USDA estimates that the market price for peanuts is over $1,000 per ton. I can assure you, just as any peanut producer or major buyer of peanuts would, that a $534 per ton target price WILL NOT increase peanut production or acreage. Please also note that we have to rotate peanuts and if our rotation gets out of sync then costs escalate and yields decline.

At the same time, peanut producers need a revenue program that is a real, substantive choice for producers. This should include a Reference Price of $534 per ton and a world market price determined by a Rotterdam price analysis.

Although we asked the Senate Agriculture Committee to include a producer choice type program, countercyclical program, or revenue program in their legislation, the Committee failed to do so. We asked the Center to evaluate the Senate Agriculture Committee 2012 Farm Bill as to its impact on peanut producers. The Center determined that the Senate's Agricultural Risk Coverage (ARC) program was not beneficial to peanut producers. The percentage cut in payments that the 13 Southeastern representative peanut farms would have received if the ARC component was in effect during the 2007–2011 time period would have ranged from 6.5% to 95% with the average being 62% under the ARC option (See *Attachment 1*). The Senate Committee's period to determine a farmer's eligible acres is 2009–2012. This change will adversely affect peanut producers in Oklahoma, Texas and Virginia where there have been significant changes in peanut acreage since 2002.

In addition, the Center applied the Senate's ARC program to peanut producers for the 2013–17 crop years. The analysis for 2013–2017 crop years using the Senate's ARC program indicated, except for one farm, that no representative farm had any payments during the life of the 2012 Farm Bill. This applies to all three regions of the peanut belt (See *Attachment 2*).

As I mentioned in the beginning of my testimony, I also grow other commodities including corn and wheat. In examining the Senate's ARC program on my farming operation, I do not see how it will help my farm maintain economic viability with respect to corn and wheat relative to the current program. We looked at the county level data for my county Irwin plus two neighboring counties of Coffee and Turner. None of these counties would have triggered an ARC payment for corn for the years 2007–2011. However, I asked the Center to apply the Senate's ARC program to its representative farms for the years 2007–2011 with respect to corn and wheat production in the South. Due to our weather patterns, the majority of the representative farms with corn production are under irrigation. None of the irrigated corn production on the representative farms triggered an ARC payment. In contrast, every non-irrigated corn producer triggered a payment at least 1 of the years. Please note the payments were at a level of $4.11–$7.19 per planted acre. Except for one farm, these payments were 54% to 71% less than what they received under the current program. For the irrigated corn producers, they had a 100% loss in government payments. While their analysis is not complete in looking at the 2013–2017 time period, indications are that the conclusions will be similar to their findings for 2007–2011. With regard to wheat, only one representative farm in each of the three peanut production regions triggered an ARC payment. The farm in the Southeast triggered 1 year and its 5 year average payment was ½ of what it received under the current program. The farms in the Virginia-Carolina area and in the Southwest region did not have any wheat base. Their 5 year average payment was $1.53 per planted acre and $3.48 per planted acre, respectively. Those levels of payments will not sustain an economically viable operation during the hard times.

We hope the Committee will work hard to assure that program participation applies to the producer. There are areas in the peanut belt, *i.e.,* tobacco counties that do not have any commodity base. Please take this into consideration when developing the legislation.

Mr. Chairman, you and other Members of the Committee were successful in reforming payment limitation rules in the 2008 Farm Bill. Working with agricultural groups and Members of Congress not on the Agriculture Committee, I believe the reforms in the 2008 Farm Bill were equitable. We request that the current adjusted gross income rules and payment limitation restrictions be continued in the 2012 Farm bill.

Our peanut producers ask that the House Agriculture Committee draft a farm bill that works for farmers across the nation, not just one or two regions of the country. This Committee has a long history of developing U.S. farm policy in a bipartisan manner. I know you and many Members of this Committee and am confident that no farm bill will move forward that doesn't represent the interests of all U.S. farmers and ranchers. We believe Chairman Lucas and Ranking Member Peterson were on the right track last year with their budget recommendations on Producer Choice.

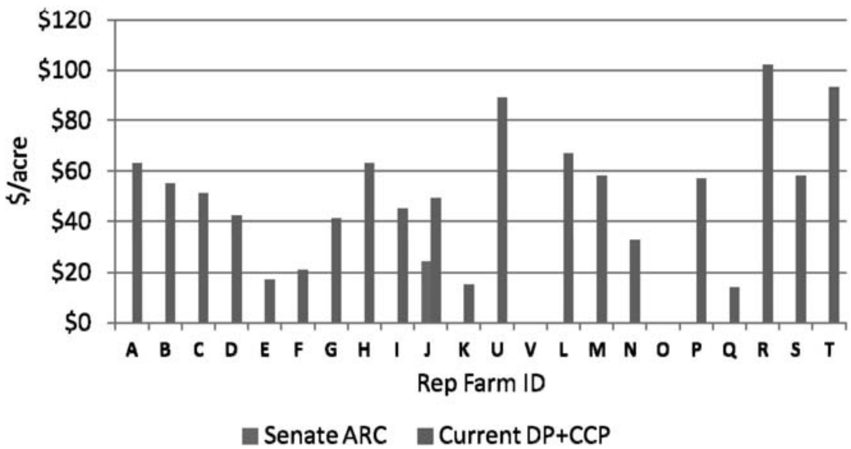
In closing, I appreciate the opportunity to testify before the Subcommittee today. You have a difficult task before you as you attempt to reconcile a crisis in our Federal budget while assuring that Americans have an adequate, safe food supply.

Thank you.

ATTACHMENT 1

22 United States Representative Peanut Farms 2013–2017: 5 Year Average Payment Comparison of Current Program (if continued) Relative to Senate's Agriculture Risk Coverage Proposal for Peanuts

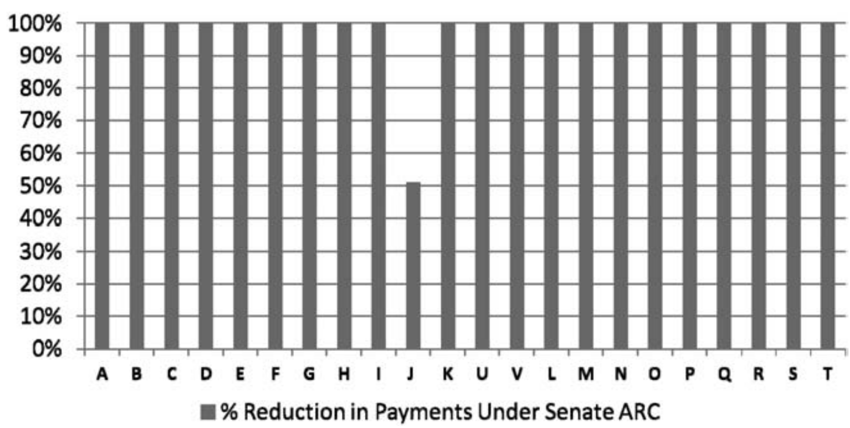
National Center for Peanut Competitiveness



ATTACHMENT 2

22 United States Representative Peanut Farms 2013–2017: 5 Year Average Percentage Reduction in Payments of Senate's Agriculture Risk Coverage Proposal to Current Program (if continued) Relative for Peanuts

National Center for Peanut Competitiveness



The CHAIRMAN. Thank you, Mr. Morris.

Mr. Johnson, at your leisure.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Mr. JOHNSON. Thank you, Chairman Conaway, Ranking Member Boswell, Members of the Committee, for the opportunity to testify. I am Roger Johnson, President of National Farmers Union, third-generation farmer from North Dakota where I spent most of my life before moving out here.

We represent 200,000 family farm members all around the country. And our members at our most recent annual convention 2 months ago voted on and formally adopted principles for the next farm bill in two special orders of business.

Everyone from producers and consumers benefits from a strong, effective farm safety net. Commodity prices never stay high and do not always return profits to farmers. When prices come down, as we know they will, it is critical that a price-based safety net be in place. Low market prices generally last much longer than high prices. Crop insurance is a very necessary risk management tool that should be provided to a larger variety of commodities and specialty crops. We strongly support it.

Unlike most businesses, food, fiber, and fuel producers face more uncontrollable variables on both the cost and price side. Therefore, a strong risk management system must be in place, but crop insurance alone cannot protect against multi-year price collapse. As a consequence, we have proposed a program called the Market-Driven Inventory System, which I will spend a bit of time talking about.

We also support permanent disaster programs. We know that long-lasting drops in commodity prices and artificially high-priced peaks are harmful to the entire production supply chain in both domestic and international markets. The bill passed by the Senate Agriculture Committee does not include protection against this damaging price volatility. To address the threat of instability, we commissioned the University of Tennessee's Ag Policy Analysis Center, who helped us develop the Market-Driven Inventory System Program, dealing with extreme price volatility in commodity markets while allowing farmers to receive most of their income from the marketplace rather than from government payments while saving the Federal Government a significant amount of money in the process.

I would like to draw your attention to the graphs in my testimony that further explain how MDIS would benefit multiple stakeholders. This system is an agricultural commodity program that mitigated price volatility, it benefits commodity and livestock producers, the biofuel industry, hungry people in this country and around the world. We also reduce government expenses and increase the value of crop exports while maintaining net farm income over time.

The central feature of MDIS is a voluntary, farmer-owned and market-driven inventory system based on recourse loan rates set at levels below total cost of production but above variable cost. Once crops are placed under loan, they would be required to remain off the market until a release level set at 160 percent of the loan rate is reached. At that time, storage payments would stop, the loan would be called on a first-in/first-out basis. In the unlikely event that inventory caps are reached, the Secretary would be authorized to offer a voluntary paid land set aside on a bid basis to those commodity producers.

The analysis showed that from 1998 to 2010 actual government payments for the eight program crops in the U.S. totaled $152 billion excluding crop insurance programs. If MDIS had been in place during this time frame, farmers would have received $56 billion from the government largely from storage payments while earning roughly the same net farm income. Taxpayers would have saved $100 billion.

The MDIS Program could reduce the Federal budget deficit, provide a workable safety net for farmers for significantly less money, mitigate high feed costs for livestock producers, help reduce our dependence on foreign oil by stabilizing the biofuels industry, and most importantly, reduce the number of food insecure families in this country and around the world.

It is important to pass a farm bill this year. We appreciate the recent work of the Senate Agriculture Committee. However, their bill is not perfect. We believe the largest deficiency in the Senate bill is its failure to deal effectively with long-term price collapse. As such, the most economically rational and fiscally responsible way of addressing long-term price collapse we believe is through a program such as MDIS.

Alternatively, but at greater cost, price decline protection could also be provided by increasing and balancing target prices, which again must be set at a level below cost of production. We would support such a move in balancing and increasing target prices based on cost of production and recent years' relative prices across commodities.

Thank you for the opportunity to testify.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

On behalf of the family farmers, ranchers, fishermen and rural members of National Farmers Union (NFU), thank you for the opportunity to submit testimony regarding the 2012 Farm Bill. More than 125 organizations, representing farm, agricultural, rural, conservation, nutrition and hunger interests have called for the passage of a farm bill this year. Many parts of the 2008 Farm Bill have already expired, with the balance set to expire in a few months. The efforts of Chairman Lucas, Ranking Member Peterson, Members of this Subcommittee and the Agriculture Committees, and many others to craft an efficient and effective 2012 Farm Bill are commendable. The recent action by the Senate Committee on Agriculture, Nutrition and Forestry in forwarding a bill out of their committee has been very encouraging, and it offers hope that both houses of Congress may act swiftly to pass a bill. Enacting a strong farm bill this year will allow America's farmers, ranchers and rural communities to be confident they have access to a strong safety net that can be deployed when disasters strike or when markets collapse.

NFU is proud to be a grassroots organization made up of approximately 200,000 farm families in 33 states. Policy positions are developed by the farmers, ranchers, fishermen and rural resident members. Our policies are written at the local, regional and state levels, and then on the national level. Our members voted on and formally adopted our principles for the next farm bill in two special orders of business (see addendum) in March at our annual convention in La Vista, Neb.[1–2]

NFU acknowledges today's challenging budget environment, but also understands that tomorrow's budget situation is not likely to be any more favorable. The agriculture community has stated many times that it is willing to bear its fair share of cuts in order to contribute toward deficit reduction, but they must be proportional to cuts in other sectors. I respectfully urge Members of the Committee to consider the critical and tenuous nature of our nation's food security when considering the next farm bill. Production agriculture is a primary economic driver. When production agriculture prospers, a multiplier effect results and jobs and tax revenues at the local, state, and national levels are added without raising tax rates. Spending reductions that adversely impact the productivity and profitability of production agriculture are counterproductive to our overall national economic interests. Family farmer- and rancher-owned and operated food, fuel, and fiber production is the most economically, socially and environmentally beneficial way to meet the needs of our nation.

Our national farm and food policy affects all Americans, urban and rural, food producers and food consumers. We have the opportunity to shape this important policy only once every few years. Our nation's family farmers, who are those most vulnerable to risk, need an effective and fiscally responsible safety net to mitigate the effects of weather and market volatility in order to achieve our food and energy security goals and to preserve jobs in rural America. As the Members of the Committee know, agriculture is a unique industry, with market behavior that defies typical supply and demand economics, high input costs, and the constant risk of weather disasters threatening our nation's producers. It is NFU's belief that farmers should not receive support in the good times, but that farm policy should instead provide economic security to farmers, who have little market power, in bad times. Our nation's farmers need a more effective and fiscally responsible safety net to mitigate the effects of weather and market volatility and to achieve our food and energy security goals.

Additional Farm Bill Priorities

Congress should continue investments in rural America through farm bill conservation and energy programs. Demand for these initiatives remains high and yet these programs are chronically under-funded in the annual appropriations process, which results in program backlogs. Congress should provide a flexible conservation toolbox in the 2012 Farm Bill that includes streamlined program delivery for working lands, land retirement and easement programs, coupled with significant Federal funding and flexible local planning authorities.

Additionally, the 2008 Farm Bill included language that established and continued important research, animal health, marketing, and disaster programs related to livestock production, which brought additional interests into the farm bill process. The livestock title mandated country-of-origin labeling (COOL) for meat, fish, perishable agricultural commodities, and assorted other food products, which has been a long awaited and very beneficial law for farmers and consumers alike. A livestock title should be a part of the 2012 Farm Bill and must maintain the progress established by the previous farm bill.

Furthermore, NFU has a long, proud history of advocating for programs that help the less fortunate among us. National nutrition policy must address both the quantity and quality of food available to needy Americans, and nutrition programs should place an emphasis on fresh and local food to ensure that Americans of all income levels have access to healthy, nutritious foods. The local food procurement directive of the 2008 Farm Bill must be continued and further emphasized in the 2012 Farm Bill, and NFU supports further incentives for Supplemental Nutrition Assistance Program (SNAP) and other Federal nutrition program recipients to use their benefits at farmers markets, achieving dual objectives of providing healthy food to those who need it most and supporting family farmers and ranchers.

Market-Driven Inventory System: An Overview

In 2011, NFU commissioned the University of Tennessee's Agricultural Policy Analysis Center (APAC), under the leadership of Dr. Daryll E. Ray, director, and Dr. Harwood Schaffer, research assistant professor, to develop a farm program that

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[1] "The 2012 Farm Bill: Investing in Rural America." National Farmers Union Special Order of Business. Approved March 6, 2012. *http://www.nfu.org/images/stories/SpecialOrders/2012/FarmBillAMENDED__SpecialOrder.pdf*.

[2] "Market-Driven Inventory System and The Farm Bill." National Farmers Union Special Order of Business. Approved March 6, 2012. *http://www.nfu.org/images/stories/SpecialOrders/2012/MDIS__SpecialOrder.pdf*.

would moderate extreme volatility in commodity markets while allowing farmers to receive their income from the marketplace rather than from government payments, saving the Federal Government a significant amount of money in the process.

The Market-Driven Inventory System (MDIS) developed by Dr. Ray is an agricultural commodity program that mitigates price volatility, providing advantages to livestock producers, the biofuels industry, and to hungry people in this country and around the world. In addition, it would reduce government expenses, increase the value of crop exports, and maintain net farm income over time. The central feature of MDIS is a voluntary, farmer-owned and market-driven inventory system that operates under market forces during normal conditions but moderates prices at the extremes. Inventory stocks activity would only be activated when crop prices become so low or so high that normally profitable agricultural firms are not provided with reasonable investment and production signals. By working with the market, MDIS would ensure that farmers receive their income from the market instead of from government payments.

In the wake of the extreme commodity price volatility seen from 2006 to 2010, many of our international counterparts have revitalized, constructed or made plans for a grain inventory management system on a national level. The international community has also of late called for the establishment of a global "'virtual' internationally coordinated reserve system for humanitarian purposes," first mentioned in the G8 Leaders' Statement on Global Food Security at the Hokkaido Toyako Summit on July 8, 2008, and more recently at the November 2011 G20 summit in Cannes, France. Implementation of MDIS in the United States could be a valuable model for future global, coordinated grain inventory management systems.

This two-phase study found that MDIS can provide the functions sought by NFU's family farmer and rancher members and our international brothers and sisters. The first portion of the study (Phase I) is a rerun of history from 1998 to 2010 with one change: the commodity programs during that period are replaced with MDIS. The second (Phase II) uses the U.S. Department of Agriculture (USDA) 10 year baseline released in February 2012 as the starting point for the analysis. Because 10 year-ahead baseline projections lack real world variability, a pattern of shocks that roughly mimic the variability experienced by crop agriculture from 1998 to 2010 were imposed on the projections.

The POLYSYS simulation model, developed by APAC, is the analytical model used in this analysis. POLYSYS simulates changes in policy instrument levels and/or economic situations as variation away from a baseline situation. Crop allocation decisions are made with linear programming models using county-level data as a proxy for farm-level decisions. The crop prices and demands as well as all livestock variables are estimated at the national level. National estimates of revenues, costs and net returns are also estimated.

MDIS Phase I: A Historical Analysis

Phase I explores the extremely volatile commodity price period between 1998 and 2010 using historical data as the baseline. In this portion of the analysis, the actual historical supply, demand and price numbers are compared with what those numbers are estimated to have been had MDIS been in effect.

During the 1998 to 2010 time period, actual government payments for the eight program crops (corn, wheat, soybeans, grain sorghum, barley, oats, cotton and rice) totaled $152.2 billion, excluding crop insurance premium subsidy payments. If MDIS had been in place during this time, farmers would have received $56.4 billion from the government (in storage payments), while earning roughly the same net farm income over the period as historically received (*figures 1* and *2*). With MDIS in effect, annual net farm income would have been, on average, higher in the early part of the period (1998 to 2005) and lower in the latter part of the period (2006 to 2010) but for the full 13 years under MDIS, net farm income averaged only slightly lower ($51.1 billion *versus* $52.1 billion). MDIS would have proven to provide an effective safety net for farmers, remove the volatility from the commodity market and reduce government payments by approximately ⅔.

Figure 1: Government Payments for 8 Crops: 1998–2010

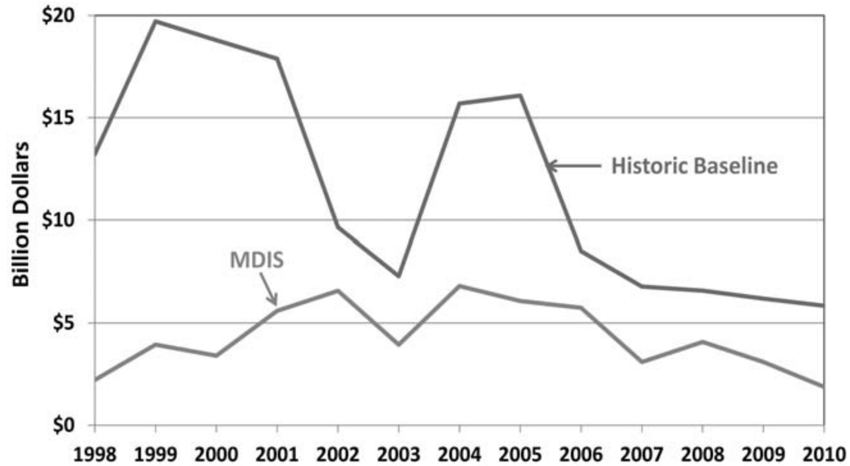

Fig.1 compares the Federal cost of the farm bill programs that were implemented from 1998 to 2010 to the cost of MDIS if it had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the Federal Government would have saved more than $95 billion over the 13 year period.

Figure 2: Realized Net Farm Income, 1998–2010

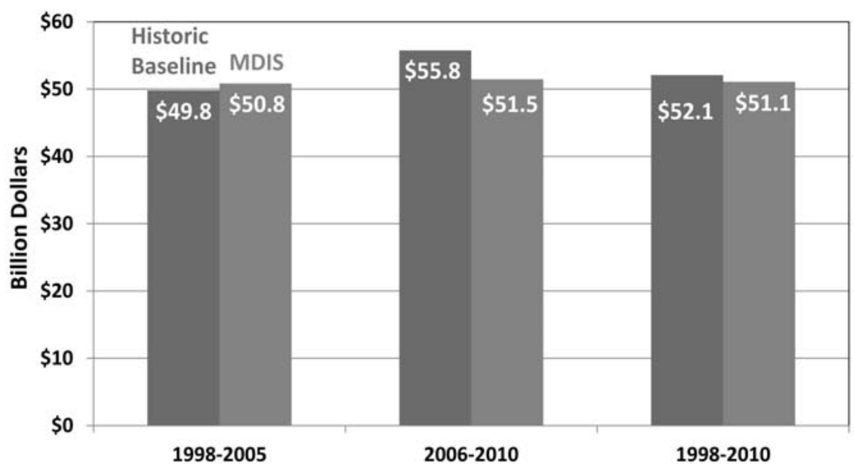

Fig. 2 compares net farm income from the farm programs that were implemented from 1998 to 2010 to what net farm income would have been had MDIS been in place during this time frame. The analysis found that net farm income would have remained virtually unchanged over the 13 year period.

For the entire 13 year period, the value of production under the baseline policies was $413 billion while with MDIS it would have been $446 billion—a difference of $2.6 billion per year. Crop prices were significantly higher under MDIS in the early part of the period, and for the full 1998 to 2010 period prices were higher by $0.25, $0.50 and $1.00 per bushel for corn, wheat and soybeans, respectively, compared to actual prices.

Had MDIS or a similar inventory-based commodity program been in effect from 1998 to 2010, the value of crop exports would have exceeded the actual value of exports during that period (*figure 3*). A higher crop price does cause a reduction in the quantity exported, but that decline is less than the increase in price. As a result, the value of exports increases with rising prices and decreases with price declines. (As an aside, this property does not bode well for the future direction of the change in value of agricultural exports over the next few years if prices decline.)

Figure 3: Annual Value of Exports for 8 Crops (1998–2010)

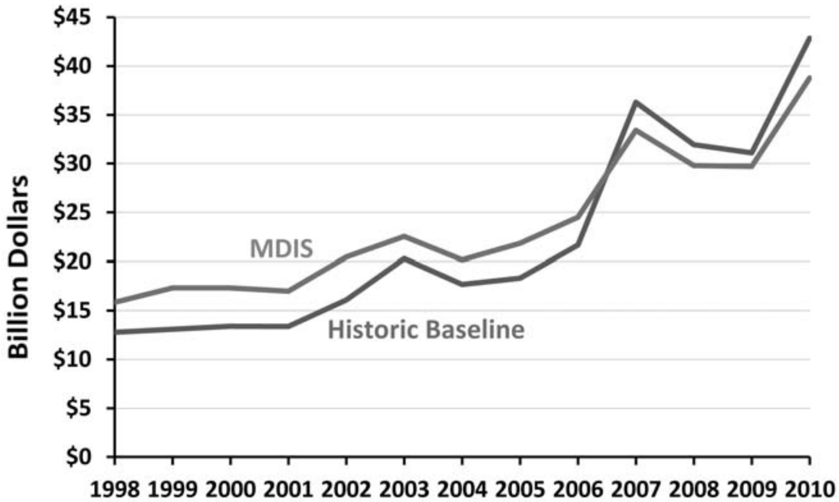

Fig. 3 compares the historic export value of the eight program crops from 1998–2010 to their value if MDIS had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the export value of the eight program crops would have been greater over the 13 year period.

MDIS Phase II: Future Projections

Phase II is based on USDA baseline projection data for 2012 to 2021 as the beginning point of the analysis, but production shocks were used to mimic the variability that crop and livestock agriculture experienced between 1998 and 2010. Crop yields ten percent above the baseline for the eight major crops for the 2012 through 2014 crop years were imposed, and in the 2017 and 2018 crop years a ten percent decrease below baseline yields was used, along with a five percent decline in 2019. The purpose of these yield shocks was to reproduce price conditions similar to those that were seen in 1998 through 2010—a timeframe that saw both low prices accompanied by massive government payments and record high prices. The resulting comparisons below are between this shocked baseline assuming continuation of current commodity programs and the MDIS alternative. The MDIS simulation includes the same production shocks.

Government payments with a continuation of the current programs and shocked production total $65 billion over the 10 years from 2012 to 2021. With MDIS in place, government payments are estimated to total $26 billion, or 60 percent less (*figure 4*).

Figure 4: Government Payments for 8 Crops: 2010–2021

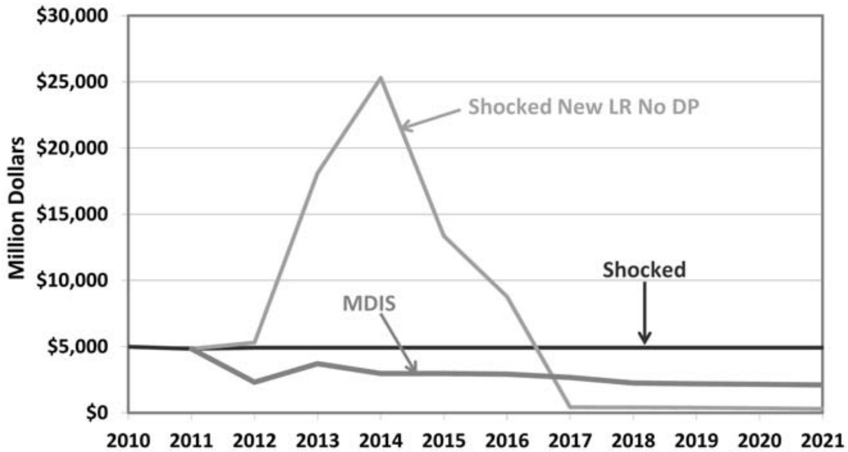

Fig. 4 compares the projected Federal cost if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA's baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that government payments would be $39 billion lower if MDIS is implemented rather than extending current programs.

Net farm incomes averaged over the 10 years are nearly identical—$79.2 billion per year under the current programs and slightly higher with MDIS, $79.6 billion (*figure 5*).

Figure 5: Realized Net Farm Income, 2010–2021

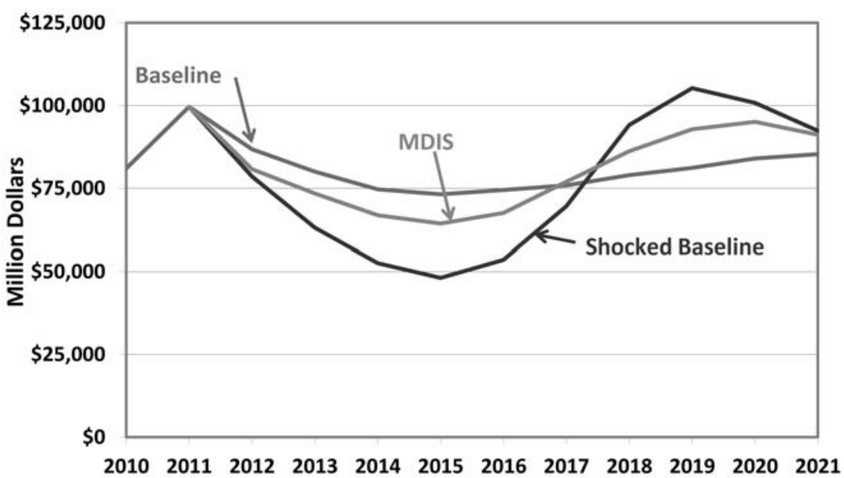

Fig. 5 compares the projected net farm income if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA's baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that net farm income would be slightly higher under MDIS than under current programs in either scenario.

Because crop prices average higher with MDIS than under the current program, the value of exports over the 10 year period is higher with MDIS by $15 billion, or $1.5 billion per year, on average (more in the first part of the period and less in the latter part of the period) (*figure 6*).

Figure 6: Value of Exports—8 Crops, 2010–2021

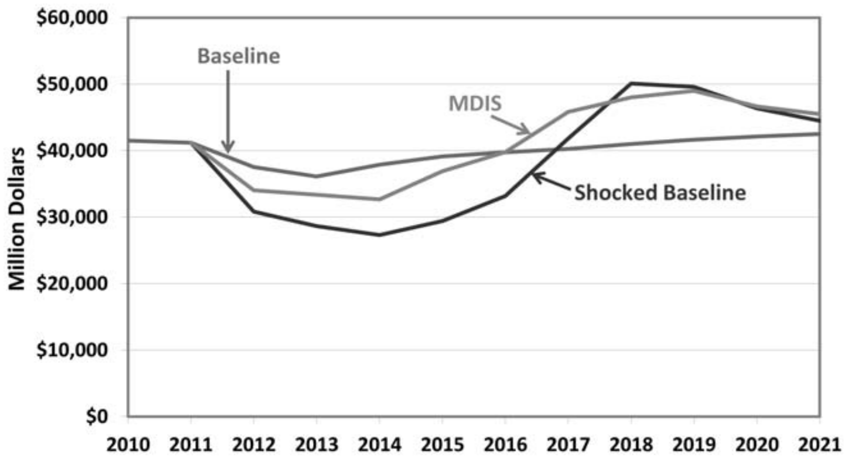

Fig. 6 compares the projected export value of the eight program crops from 2010 to 2021 to their projected value if MDIS is in place during this time frame. The analysis projects that, if MDIS is implemented instead of extending the current farm bill programs, the export value of the eight program crops would be $15 billion more over the study period.

MDIS: Mechanics

For Phase I, the beginning corn loan rate is halfway between the variable cost of producing a bushel of corn and the corresponding total production cost. In 1998 that number is computed to be $2.27 per bushel of corn. The 1998 loan rates for other crops are then computed to be in the same proportion to corn loan rates as those legislated by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (the 1996 Farm Bill) in order to minimize distortion, except for grain sorghum, for which the loan rate is raised to be equal to that of corn, and soybeans, for which the loan rate is raised to $6.32. The loan rates of all crops are adjusted for 1999 through 2010 using USDA's prices-paid-by-farmers chemical input index.

The analysis for Phase II of the study follows the approach and most of the basic specifications used for Phase I. The loan rates for this analysis (all in dollars per bushel) are: $3.50 for corn, grain sorghum and barley, $2.49 for oats, $5.28 for wheat and $8.97 for soybeans. The loan rates have the same proportion to corn as the loan rates in the Food, Conservation and Energy Act of 2008 (the 2008 Farm Bill). Loan rates are held constant for the full 2012 to 2020 period.

The maximum quantities of grain allowed in the MDIS inventory in both Phase I and Phase II are specified to be 3 billion bushels of corn, 800 million bushels of wheat and 400 million bushels of soybeans. Inventory maximum levels for other program crops would be set as appropriate. Farmers with MDIS recourse loans are paid $0.40 per bushel per year to store the grain and are required to keep the grain in condition.

With MDIS in operation, markets work uninterrupted until prices are estimated to fall below a recourse loan rate or, if MDIS inventory is available, prices exceed 160 percent of the loan rate.

When prices fall below the loan rate, the model estimates the amount of grain that farmers would need to put under recourse loan with the Farm Service Agency (FSA) to raise the market price to or above the loan rate, which is the "price" that FSA uses to value the grain used as collateral for the loan. If a market price is estimated to exceed 160 percent of the loan rate, the model checks to see if there is an inventory stock in the MDIS farmer-owned inventory. If MDIS inventory is available, the model computes the quantity needed to lower price to about 160 percent of the loan rate and allows that amount of stock onto the market. Setting the release price at 160 percent of the loan rate is the key to establishing a functional system. The market does not work as effectively within the model at higher or lower loan rate-release price ratios.

The grain under MDIS must stay in inventory, that is, it cannot be redeemed by paying off the loan and marketed until the price goes above the release price of 160 percent of the loan rate and notification is specifically received. With MDIS in effect, all government payment programs (countercyclical payments, loan deficiency payments, fixed or direct payments, *etc.*), except MDIS inventory storage payments and crop insurance subsidies, are eliminated for corn, grain sorghum, oats, barley, wheat, and soybeans. An optional set-aside would be available for use at the secretary's discretion if MDIS inventory maximums are reached and prices fell below loan rates. Rice and cotton are not included in MDIS and are assumed to remain eligible for current program payments.

History of Commodity Programs—How Did We Get Here?

With the adoption of the FAIR Act of 1996, which extended the marketing loan program to all crops, the holding of grains either by the Commodity Credit Corporation or farmers in a farmer-owned reserve was made ineffective. Part of the logic behind the end of these grain storage programs was the belief that if there were a need for stocks, participants in the commercial sector would buy up those stocks at a low price and later sell them at a higher price with no cost to the government. Recent history has demonstrated that those commercial inventories simply did not come into existence and the market has seen numerous countries impose harmful export limitations of their domestically produced foodstuffs in the face of citizen concern over food shortages. In the U.S., we have even heard concerns from the livestock sector over the availability of sufficient feed supplies.

The 1996 Farm Bill instead established the present system of direct and countercyclical payments. Almost immediately after the 1996 bill, the market changed and commodities prices began to decline. From 1996 until 2004, the value of agricultural exports fell from an all time high of $27.3 billion to $10.5 billion.[3] From 1996 until 2005, corn prices fell to an average of $2.06 per bushel, wheat an average of $3.03 per bushel and soybeans an average of $5.33 per bushel.[4] The elimination of reserves and new incentives to plant program acres combined to result in widespread overproduction, devalued crop prices and thus an increase in the amount paid in government subsidies. The resulting system had no way to manage wild swings in supply and market volatility that have proven detrimental not only to family farmers but also to consumers in developing countries, industries dependent upon agricultural commodities for inputs, and rural economies.

In times of high commodity prices, such as current market conditions, target prices are set so low that even in the case of a market downturn the countercyclical program does not reflect the rising cost of production or provide an adequate safety net. Direct payments are increasingly indefensible to the public and unnecessary for farmers, as they get distributed based on historic production, regardless of current market price.

As a result, from 1998 to 2010, government payments for crops totaled $152.2 billion.[5] If MDIS had been in place for corn, wheat and soybeans between 1998 and 2010, government payments to farmers would have been reduced by nearly ⅔ to $56.4 billion, the value of exports would have increased, average commodity prices for farmers would have been higher, damaging price volatility would have been substantially reduced and overall farm income would have been left effectively unchanged.[6]

MDIS and the Federal Deficit

As Congress continues to seek ways to reduce the Federal deficit, any serious discussion regarding controlling government expenditures should include MDIS. APAC's analysis over the 10 years from 2012 to 2021 found that government payments with a continuation of the current program and shocked production remain unsustainably high, totaling $65 billion. However, with MDIS in place, estimated government payments over the same period total $26 billion, a 60 percent reduction (*figure 4*) as compared to the current farm programs.[7]

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[3] Jerardo, Alberto. February, 2004. "The U.S. Trade Balance . . . More Than Just a Number." U.S. Department of Agriculture-Economic Research Service.

[4] Ray, Daryll, *et. al.* March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

[5] *Ibid.*

[6] *Ibid.*

[7] Ray, Daryll, *et. al.* March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

MDIS could save tens of billions of dollars paid under existing government payment programs and the additional tens of billions in "emergency" payments and government subsidies to revenue insurance programs otherwise needed to offset the almost inevitable periodic severe collapses in grain prices. Under MDIS, grain farmers receive their income from the market and grain demanders are not subsidized or overcharged.

MDIS Benefits Stakeholders

MDIS holds numerous benefits for a variety of stakeholders, including farmers, the environment, livestock producers, the ethanol industry, taxpayers and the food insecure worldwide.

MDIS Benefits Farmers

MDIS helps smooth out some of the wild price swings that can put some farmers out of business. By providing a greater level of income certainty, MDIS helps farmers plan for the future without decreasing net farm income. Land prices and input costs rise dramatically when commodity prices rise, but when prices drop, these costs do not drop correspondingly. With a reasonable loan rate, farmers could make long-term investments in their farming operation that improve their long-term profitability.

Farmers who put their corn, wheat and/or soybeans into the inventory system would benefit from the receipt of storage payments. They would also benefit from the future sale of their stored commodity at the higher release price. With MDIS in effect, annual net farm income was higher, on average, in the early part of the period from 1998 to 2005 and lower in the latter part of the period from 2006 to 2010, but for the full 13 years, the MDIS net farm income averaged only slightly lower ($51.1 billion *versus* $52.1 billion). The low-price years would reduce the tendency to capitalize higher returns into land. While sufficient to keep current land in production, the moderated prices do not provide the kind of price signals that would lead to an over-expansion of productive capacity and lower prices over the longer term. Net farm incomes averaged over the 10 years are almost identical ($79.2 billion per year under the current program and slightly higher with MDIS at $79.6 billion). From 1998 to 2010, farmers would have benefited from price signals that more accurately reflect the supply/demand situation at a given time, than when futures prices reflect herd-following speculative behavior on the part of some market participants.

MDIS Benefits Conservation

MDIS holds significant conservation benefits because price stability puts less pressure on environmentally sensitive land. During high price years, for example, demand pressures on land is reduced because farmers will not be incentivized to break native grassland or bring Conservation Reserve Program acres back into crop production. During low price years, net farm income would remain higher under MDIS. This means that farmers have more money to invest in conservation in order to meet their cost-share requirements under programs such as the Environmental Quality Incentives Program.

MDIS Benefits Livestock Producers

Less volatile commodity prices under MDIS help livestock producers keep input costs more stable and help prevent skyrocketing grain prices, which can bankrupt livestock producers. In the 2006 to 2010 period, higher prices put some producers over the financial edge; however, MDIS would have reduced commodity prices to a more reasonable and survivable level. Livestock producers are vulnerable to rapidly increasing feed prices, which they cannot quickly pass on to the consumer. Overall, MDIS would have provided livestock producers and industrial users with security in the availability of feed supplies and a more reasonable range of prices.

MDIS Benefits the Ethanol Industry

Abnormally high commodity prices are also damaging to the ethanol industry and can cause disruptions in the supply chain. Having access to a stable supply within a more predictable price range allows ethanol producers to engage in long-range planning. MDIS decreases price fluctuation faced by ethanol plants and ensures more stable production, which in turn helps put America on the road to energy independence.

MDIS Benefits Taxpayers

Throughout the study period, government payments for crops totaled $152.2 billion. Had MDIS been in place from 1998–2010 rather than the existing programs, taxpayers could have saved more than $95 billion compared to what the Federal

Government actually spent on farm programs. This is a nearly 60 percent reduction in expenditures. Government payments with a continuation of the current programs and shocked production total $65 billion over the 10 years from 2012 to 2021; with MDIS the estimated cost is $26 billion, also a 60 percent reduction.

Equally important, MDIS addresses perceptions among some consumers that the government is giving unwarranted handouts to farmers. By setting up a system that allows the price to range closer to costs of production, these policies allocate the costs to the major users of commodities, both domestic and international, rather than expecting the U.S. Federal Government to subsidize their purchases. In addition to the benefits they would receive under MDIS as taxpayers, U.S. consumers would benefit from more stable commodity prices that would reduce the volatility of food costs. While commodity prices under MDIS increased in the 1998 to 2005 period according to the model, the farm portion of most processed food costs that U.S. consumers eat is relatively small, resulting in minimal long-term pressure on food prices. Average commodity prices in the 2006 to 2010 period under MDIS would not have increased as much as they did under existing policies, reducing upward pressure on food prices.

MDIS Benefits the Impoverished

In developing nations, a small increase in commodity prices can mean the difference between putting food on the table and going hungry. MDIS reduces the price swings that cause many people who are directly reliant upon staple crops like corn to go hungry when they can no longer afford food. Importers of U.S. corn, wheat and soybeans would have been assured of a stable supply of storable commodities, reducing the need for countries to protect local supplies of grains.

With farmers constituting as much as 60 to 70 percent of the poor in developing countries, higher prices in the 1998 to 2005 period under MDIS would not adversely affect these farmers because of the large amount of food that they produce for self consumption. In addition, they would receive a more stable income for the product they do sell into the market. In times of high prices, many subsistence farmers and urban poor are often priced out of the market, increasing the number of chronically hungry persons in the world. As a result of the price spike in 2007 and 2008, more than 200 million people fell into the chronically hungry category. By moderating the price spikes, MDIS reduces the price pressure on the poor in developing countries. In addition, MDIS assures participants in the marketplace of an adequate supply of grain, reducing the hoarding tendency, which often results in localized price spikes.

Permanent Disaster Programs

NFU has long been a leading proponent of a permanent disaster program. The unpredictability and inefficiencies associated with *ad hoc* disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) and other related programs, such as the Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish Program (ELAP), the Livestock Indemnity Program, and more, in the 2008 Farm Bill. These permanent disaster programs were intended to allow farmers and ranchers to recover quickly from devastating weather without waiting for piecemeal disaster assistance. Unfortunately, that set of programs was inadequately funded and oversight challenges postponed many of the rules and regulations needed to implement the programs. Even in 2010, there were farmers still awaiting their claims for 2007 losses. SURE and similar initiatives were a hard-won victory for family farmers and ranchers and those programs' guiding principles—to protect farmers against catastrophic yield losses—ought to be included and appropriately implemented in the next farm bill.

In the next farm bill, permanent disaster programs must be funded at a level that makes them effective and eliminates the need for *ad hoc* payments. Partial advance payments should be made available so that assistance can be quickly provided in times of desperate need. Decision makers must ensure that we can continue the work that was done with SURE and other programs in 2008. Returning to a system of *ad hoc* disaster programs is likely to be much more costly for both the Federal Government and for farmers. Not only are *ad hoc* programs expensive, they are also difficult to administer, extremely political and not solely influenced by real conditions and/or need. Between 1996 and 2002, when the commodity title was removed from the farm bill, approximately $30 billion was spent on *ad hoc* disaster programs.[8] The cost to extend SURE and similar disaster assistance programs for 5

[8] USDA Economic Research Service, retrieved from *http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm*.

years in a 2012 Farm Bill is projected to be $8.9 billion,[9] and baseline funding for the permanent disaster programs expired in 2011. It should also be noted that any disaster program would likely be less costly if the MDIS concept were also included in the next farm bill.[10]

Even though permanent disaster programs were enacted in the 2008 Farm Bill, *ad hoc* disaster relief efforts were authorized in 2010. This is likely due to the fact that SURE and the other programs were not as effective or fast-moving enough to satisfy the needs of farmers who were affected by disaster. If disaster programs were strengthened, these legislative solutions would likely be unnecessary. It should also be kept in mind that disaster programs are among the few farm bill programs that provide roughly equal benefits to both farmers and ranchers. Including a set of previously unaffected sectors of agriculture in Federal farm policy would generate more support for the overall farm bill.

It is important that farmers do their part by responsibly sharing in the inherent business risks of their farm. The distribution of disaster aid must remain linked to crop insurance participation, and SURE participants should be required to purchase more than just catastrophic (CAT) coverage so that they are able to reasonably recover some of their losses through crop insurance.

Any improvements in disaster programs should not come at the expense of program delivery. County FSA staff who service these programs are pushed to the limits of their resources as it is, and their offices need adequate funding and modern technology in order to continue to serve our country's farmers. A consistent, predictable and stable backup plan for farmers struck by weather-related problems is the most important benefit of having a permanent disaster aid program. Any efforts to improve upon it should not interrupt the positive results SURE and other disaster programs provided.

Risk Management

Crop insurance is an important safety net mechanism that provides assistance to farmers only when assistance is needed. It is fully compatible with MDIS and, as such, crop insurance must remain a cornerstone of farm policy. Risk management tools must be made economical for all farmers, regardless of crop or geographic region, and more insurance products should be made available that protect against changes in the cost of production. Farmers also need protection against losses due to weather-related disasters, high input costs or devastatingly low prices. NFU supports efforts aimed at streamlining and eliminating duplication among existing farm bill programs. Risk management provisions in the next farm bill should extend the availability and affordability of Federal crop insurance programs to farmers in portions of the country that have not historically carried significant levels of crop insurance, thereby reducing the need for disaster aid.

NFU members support the reestablishment of compliance requirements for Federal crop insurance eligibility so that all existing or new crop and revenue insurance or other risk management programs are subject to all conservation compliance provisions.

Crop insurance coverage should be improved for organic producers, including ending the existing surcharge on organic policies and the full implementation of coverage levels based on organic prices. Additionally, crop insurance products and other risk management tools should be developed for specialty crop producers. Funding levels for crop insurance must remain adequate as it is the most critical and effective safety net for farmers and crop insurance has already been subjected to recent significant cuts.

Recent budget cuts to crop insurance, which subtracted from the farm bill baseline, were made since the last farm bill. We urge lawmakers to carefully consider the effects of reduced funding for crop insurance programs and prohibitions should be put in place to prevent future raids on crop insurance resources, particularly through the Standard Reinsurance Agreement process. Cuts should not come at the expense of greatly increased risk management costs for farmers. Continued vigilance should be maintained to prevent the abuse of crop insurance programs, but crop insurance must remain a part of the next farm bill. Costs associated with the Federal Crop Insurance Program have risen as crop insurance has taken on additional importance in the suite of safety net tools in the farm bill. Although costs have increased over the long run, total costs of the crop insurance program were cut nearly in half between 2008 and 2010. Most of the savings came from reductions

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[9] Congressional Budget Office.

[10] Ray, Daryll, *et. al.* March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

in net indemnities, although reductions to administration and overhead subsidies for approved insurance providers have made for decreased spending as well.

There are also a few adjustments to the mechanisms of the crop insurance programs that should be considered. All risk management programs should be based upon Actual Production History (APH), and for situations in which the APH is not available, the qualified yield for a farm should not be set at a lower level than that of county FSA calculations. In order to protect farmers in the event of successive crop disasters, we also urge the establishment of APH yield floors. These common sense approaches to crop insurance will help to ensure that losses are accurately reflected in indemnities.

Crop insurance is not the be-all and end-all for a farm safety net. Without reducing the volatility that plagues agriculture commodity markets with MDIS, revenue-based crop insurance products will be extremely expensive in high price periods and will provide little, if any, assistance to farmers when prices collapse. NFU members would much rather see a farm policy that also includes MDIS and disaster assistance programs to moderate the volatility of the agricultural marketplace and yields so that farmers can continue to farm.

Conclusion

Many challenges lie ahead in the writing of the next farm bill. Funding is and will continue to be tight. It is critical that lawmakers come together in a bipartisan manner to outline the top priorities for the omnibus agricultural legislation.

The average American spends less than ten percent of his or her disposable income on food, which is the lowest rate of any industrialized nation in the world. It is a fantastic bargain. This deal is the result of our national investments in agriculture through farm policy, which have ensured that America's farmers and ranchers can continue to provide the safest and most abundant food supply in the world. The primary purpose of the next farm bill ought to be as a strong safety net that protects farmers and ranchers during tough times for the health of our nation and our rural economies. A forward-thinking and well-designed safety net will be much more cost-effective than reactionary legislation that is put forward in times of emergencies.

When writing the next farm bill, lawmakers must be penny-wise but not pound-foolish. The MDIS program will have a cost, but as the study by the University of Tennessee demonstrates, it will save money in the long term. Permanent disaster programs, too, save money. For example, the U.S. spent $30 billion between 1996 and 2002 in emergency and *ad hoc* disaster programs to help farmers and ranchers when prices collapsed and the farm bill had no safety net for them.[11] Keeping that in mind, the cost to extend SURE and similar disaster assistance programs for 5 years, which could have replaced those *ad hoc* disaster programs, is $8.9 billion.

We must also complete the next farm bill this year to protect against even further cuts to agriculture. USDA cut $4 billion from agriculture programs by renegotiating the Standard Reinsurance Agreement in 2011. Congress approved a budget reduction to agriculture programs of more than 15 percent for the 2012 Fiscal Year, a cut that was two to three times deeper than the average across-the-board reduction in discretionary spending. By waiting until 2013 or later to complete the next farm bill, there may be even less funding available, making it nearly impossible to pass a farm bill that will protect America's family farmers and ranchers in tough times.

By coming together in a strong, bipartisan fashion, it is possible to craft a fiscally responsible 2012 Farm Bill with an adequate safety net to protect America's family farmers and ranchers and to help make rural communities vibrant. On behalf of the members of National Farmers Union, thank you for the opportunity to outline our priorities and I look forward to working with you to enact this critical legislation.

ATTACHMENT 1

2012 NFU Special Order of Business—The 2012 Farm Bill: Investing in Rural America

Agriculture is a primary driver of our rural and national economy, providing employment for 1 in 12 Americans, and is a job-creating industry based upon sustained production by approximately 2.2 million family farmers and ranchers. Congress has historically maintained significant investment in rural America through the farm bill.

Although farm safety net programs account for only about 14 percent of the total spending in the farm bill, about half of the spending reductions that would have

[11] USDA Economic Research Service, retrieved from *http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm*.

been attained in the Agriculture Committees' recommendation to the Joint Select Committee on Deficit Reduction would have come from farm safety net programs. Deep, unjustified cuts to farm bill programs are unacceptable and the agriculture community should not be asked to do more than its fair share in reducing the Federal budget deficit.

The next farm bill must be written to serve the needs of farmers and ranchers in times of need so that agriculture can continue to be a job-creating industry for all of America.

We support providing adequate funding levels for USDA microloan programs, targeted to beginning and small farmers, including the use of third party lending agencies to distribute funds and provide ongoing technical support.

The Farm Safety Net

Crop insurance has become the primary safety net mechanism for many farmers and has proven to be effective in the last few years. This program must be maintained and must continue to include and expand to offer coverage to more farmers and methods of production, such as livestock, forage crops, specialty crops, organic agriculture and other emerging products to provide them with protection from natural disasters. However, the proliferation of price-based revenue insurance products creates potential problems in the event of a collapse in prices.

NFU supports reestablishment of compliance requirements for Federal crop insurance eligibility so that all existing or new crop and revenue insurance or other risk management programs are subject to all conservation compliance provisions. A means of protecting farmers against deep or catastrophic losses must be included in the next farm bill to ensure that farmers are able to weather occasional significant yield losses.

Conservation and energy

NFU calls on Congress to continue investment in rural America through farm bill conservation and energy programs. Demand for farm bill conservation and energy programs remains high, and yet these programs are chronically underfunded in the annual appropriations process, resulting in program backlogs. Of the 37 farm bill programs scheduled to expire with the 2008 Farm Bill on September 30, 2012, five are programs within the conservation title and eight are in the energy title.

Congress should provide a flexible conservation toolbox in the 2012 Farm Bill that includes streamlined program delivery for working lands, land retirement and easement programs, coupled with significant Federal funding and flexible local planning authorities.

Congress should provide robust, mandatory funding for the Rural Energy for America Program (REAP), Biomass Crop Assistance Program (BCAP) and Biorefinery Assistance Program.

Livestock

The 2008 Farm Bill included language that established and continued important research, animal health, marketing, and disaster programs related to livestock production, which brought additional interests into the farm bill process. The livestock title mandated country-of-origin labeling (COOL) for meat, fish, perishable agricultural commodities, and assorted other food products, which has been a long awaited and very beneficial law for farmers and consumers alike.

It also included important provisions to improve competition in the livestock and poultry marketplace for farmers, ranchers and growers, including directives to the Executive Branch to better enforce the Packers and Stockyards Act.

NFU supports the inclusion of a livestock title in the 2012 Farm Bill that contains the following beneficial and widely popular efforts:

- Deeming products inspected under a state cooperative agreement, which are equal to or exceed USDA inspection standards, eligible for interstate trade;
- Taking action against pseudorabies and cattle fever ticks;
- Improving food safety provisions;
- Creating the Livestock Indemnity Program and the Livestock Forage Program disaster protections;
- Establishing a sheep industry improvement center; and
- Directing Federal agencies to seek a better understanding of livestock marketplace dynamics.

A livestock title in the 2012 Farm Bill must not roll back the progress achieved by the last farm bill by repealing or defunding COOL, eliminating fairness provisions for poultry growers, or facilitating the further market-distorting vertical integration and consolidation of the livestock sector.

Nutrition

NFU has a long, proud history of advocating for programs that help the less fortunate among us. National nutrition policy must address both the quantity and quality of food available to needy Americans, and nutrition programs should place an emphasis on fresh and local food to ensure that Americans of all income levels have access to healthy, nutritious foods.

Farm bill nutrition programs, including the Supplemental Nutrition Assistance Program (SNAP), Department of Defense Fresh Program, Fresh Fruit and Vegetable Program, Farmers Market Nutrition Programs, Emergency Food Assistance Program (TEFAP) and Commodity Supplemental Food Program (CSFP) should be reauthorized in 2012 at levels no lower than those of the 2008 Farm Bill and farm bill nutrition program funding should not be used to reduce the Federal deficit.

The local food procurement directive of the 2008 Farm Bill must be continued and further emphasized in the 2012 Farm Bill, and NFU supports further incentives for SNAP and other Federal nutrition program recipients to use their benefits at farmers markets, achieving dual objectives of providing healthy food to those who need it most and supporting family farmers and ranchers.

USDA should provide Electronic Benefit Transfer (EBT) machines free of charge to all farmers markets, community-supported agriculture systems (CSAs), farm stands and other direct marketing outlets to ensure Federal nutrition program recipients are able to use their benefits at all healthy food locations.

ATTACHMENT 2

2012 NFU Special Order of Business—Market-Driven Inventory System and the Farm Bill

The 2008 Federal Farm Bill is set to expire in 2012. It is essential that the U.S. Congress pass a new Federal farm bill in the interest of the food and energy security of the United States and the economic viability of the rural and overall United States economy.

Farming and ranching have high, uncontrollable risks due to weather such as disasters and disease, so the new Federal farm bill must include provisions that both maintains current farm income and reduces the cost to the Federal Government.

A study by the University of Tennessee's Agricultural Policy Analysis Center found that if a Market-Driven Inventory System (MDIS) had been in place for corn, wheat and soybeans between 1998 and 2010, government payments to farmers would have been reduced by 60 percent, exports would have increased, average commodity prices for farmers would have been higher, damaging price volatility would have been substantially reduced and overall farm income would have been left effectively unchanged.

NFU supports the inclusion of a strong and effective safety net that mitigates the extreme volatility of agriculture markets, including wild variation in prices, yields and cost of production.

NFU supports implementation of MDIS to ease the costly volatility in commodity prices, a system that will be beneficial not only for farmers but also for livestock producers, the biofuels industry, the environment, and consumers worldwide.

NFU calls on Congress to enact a new Federal farm bill that uses MDIS as its central component to maintain a return on the cost of production plus an opportunity for reasonable profit for farmers and ranchers.

The CHAIRMAN. Thank you, Mr. Johnson.

Mr. Stewart for 5 minutes. And let the record show that I shamelessly bragged on him being a constituent of the Chairman.

STATEMENT OF J.B. STEWART, VICE CHAIRMAN, NATIONAL SORGHUM PRODUCERS, KEYES, OK

Mr. STEWART. Good morning. On behalf of the National Sorghum Producers, I would like to thank you, Chairman Conaway, Ranking Member Boswell, and Members of this Subcommittee, for the opportunity to discuss the impact of this farm bill on my operation and sorghum producers and farmers nationwide. And before I go any further, I do want to especially thank my Congressman, Chairman Frank Lucas, for his strong leadership and dedication to this farm bill process on behalf of American agriculture.

I farm with my son, Jarrod, on a farm in the far western Panhandle of Oklahoma. There we raise grain sorghum, wheat, and sometimes sunflowers. We also operate a commercial spray operation and an ag supply business. This is a semiarid region with variable weather, but my family has lived and worked the land there since 1918. In fact, I still own the quarter section of land homesteaded by my grandfather.

Years in the field have given me the experience to realize the vast impact this one piece of legislation has on my day-to-day operations, and I want to ensure that farmers benefit from the farm bill we are here to discuss today.

Sorghum producers across the Sorghum Belt faced significant challenges last growing season as a result of a devastating drought. Fortunately, we survived because of a workable and viable Federal Crop Insurance Program. I have coined it as the life-sustaining medium on my farm after that drought last year. While Federal crop insurance is providing meaningful risk management tools, there obviously are a few changes we feel could enhance this program. First of all, we believe the APH methodology in the T-yield system could be improved. Specifically, for sorghum we would request that RMA exclude the impact of second crop sorghum yields on county yields. These T-yields are so low in some counties that they provide basically no protection.

We support the development of a sweet sorghum and high biomass energy sorghum insurance. NSP also encourages new products and options for all crops, much like the trend yield adjustment that has had significant value for corn and soybean producers.

NSP supports the supplemental coverage option as a cost-effective way to address shallow losses and high deductibles. Our analysis shows this is a simple way to provide a safety net across a number of geographic regions and different commodities. Commodity title programs must provide protection against systemic risk. NSP is wary of assistance programs that may impact planting decisions and we feel that crop diversity should be encouraged in farm rotations.

NSP analyzed the farm bill ARC Program and found there is not a strong amount of coverage per acre for sorghum and for wheat in my area. NSP analysis for sorghum farms in Kansas, our largest production state, shows that historically, the average ARC payment would amount to only $2.27 per acre with a trigger frequency of about 26 percent. This amount of shallow loss protection is just simply too shallow. In reality, the ARC program is essentially free insurance. Our fear is that when given free insurance, farmers or lenders would pick the coverage with the highest potential payout. This free insurance could be a set backwards in farm policy.

And while we appreciate the complexity of the cotton program and the challenges of the WTO case, NSP is also concerned about how STAX could impact sorghum's acreage. This probably could be addressed, though, through an effective SCO Program and proper construction of the commodity title.

Bottom line, while we understand the Committee's desire to tailor programs for those at risk, we urge extreme caution in that area so as not to discourage or limit future sorghum plantings. Our priority is to ensure if irrigation and water declines in the Sorghum Belt that market opportunities for sorghum grown in nontraditional sorghum areas like North Carolina, farm policy does not discourage producers from continuing to change. Any policy that is recoupled to planting will push farmers into higher-value crops and we support decoupled price basis and revenue-based support to help address this.

Farmers need a program that is simple and bankable. A program should be built to withstand a multi-year low price scenario. Rather than a revenue plan or a price-based countercyclical plan, we would prefer to have a minimum price set that serves as a floor to protect producer income in the event of a series of low price years.

Finally, given the likely possibility in this new farm program, most payments will be triggered by loss situations, NSP does not support any tighter payment limits or any change in actively engaged rules.

In closing, this new safety net is not only important for sorghum farmers but is also important to providing stability to rural communities, the economy of our states, the economy of our nation, and even the economy of our world.

We thank you for your time and this opportunity, and I look forward to questions.

[The prepared statement of Mr. Stewart follows:]

PREPARED STATEMENT OF J.B. STEWART, VICE CHAIRMAN, NATIONAL SORGHUM PRODUCERS, KEYES, OK

Introduction

Thank you Subcommittee Chairman Conaway, Ranking Member Boswell and the entire Subcommittee on General Farm Commodities and Risk Management for holding this hearing today. I also thank you for the opportunity to submit testimony on the impact future farm policy under the next farm bill will have on sorghum producers across America and my operation alike.

My name is J.B. Stewart, and my son Jarrod and I grow grain sorghum, wheat and sunflowers. We also operate a commercial spraying and ag supply business in the far western panhandle of Oklahoma near Keyes. It is a semi-arid region with variable weather, but my family has lived and worked the land here since 1918. In fact, I still own the quarter of land my great grandfather homesteaded that year. I am a fourth generation farmer, and I have a 7 year old grandson that will likely be the sixth generation.

Before I go any further, I would also like to thank my Congressman Chairman Frank Lucas for his leadership of this House process and for recognizing the importance of fair treatment for sorghum and identifying its water-saving advantages.

I am currently serving as Vice Chairman of NSP's board of directors and Chairman of the NSP legislative committee, and I understand that the actions of this Committee and the actions of the U.S. Congress have a significant impact on my farming operation and individual commodities.

NSP supported the work put forth last fall and we look forward to working with the House Agriculture Committee over the next several months as the next farm bill is drafted. My testimony will focus on several areas of farm policy as they relate to sorghum's safety net, including crop insurance, the importance of equity in Title I, and the sustainability of sorghum.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is also grown from Georgia to California and South Texas to South Dakota. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states you represent. This includes Texas, Kansas, Oklahoma, Illinois, Arkansas, Missouri, Georgia, North Carolina, California, Alabama and Ohio.

Over the past 15 years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of drought reduced 5.5 million acres planted in 2011. On average the crop is valued at approximate $1.2 billion annually.

The creation of the Conservation Reserve Program in the 1985 Farm Bill had a significant impact on the sorghum industry as producers enrolled thousands of sorghum acres in CRP. Today's sorghum acreage is ⅓ of its level prior to the 1985 Farm Bill. As CRP acreage is reduced, production of this water-sipping crop should move back toward the pre-1985 Farm Bill acres. NSP expects that returning acreage to that level will help ensure necessary infrastructure to supply the needs of our domestic and international customers. This goal is consistent with the working lands approach to conservation.

Forage and Grain Sorghum

Forage sorghum utilized as silage, hay and direct grazing represents approximately an additional 5 million acres of production. The U.S. is the world's chief exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat and cotton.

Grain sorghum is a non-transgenic crop and is typically exported to three main markets: Mexico, Japan and the European Union (EU). According to the May 2012, World Agricultural Supply and Demand Estimate (WASDE), U.S. exports accounted for approximately 28 percent of this year's sorghum use.

The most important new market for grain sorghum is the biofuels industry. According to the latest WASDE report, industrial use including ethanol production will account for 42 percent of total sorghum usage. This is more than triple the amount of the 2007–2008 crop year, and this market has even more potential in the future.

In addition, the U.S. dominates world sorghum seed production with a $200 million seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sweet and Energy Sorghum

Two other very important sectors of our industry are sweet sorghum and high biomass, energy sorghum. Most Americans perceive sweet sorghum to be used to make syrup or molasses. However, it is also used worldwide for the production of renewable fuels and chemicals. India, China and South America are producing renewables from sweet sorghum, and many private and public pilot studies are ongoing in the U.S. to explore the potential of sweet sorghums.

These crops do not receive benefits as Title I commodities, nor as specialty crops. It is critical that these two crops receive crop insurance to help level the playing field with Title I and specialty crops. We appreciate the Senate farm bill package that reinforces the importance of having crop insurance for dedicated energy crops such as sweet and biomass sorghum, and we urge this Committee to do the same.

Farm Bill Priorities

Protect Federal Crop Insurance

Sorghum producers across the Sorghum Belt faced significant challenges last growing season as a result of the drought. NSP supports Federal Crop Insurance, which is providing meaningful risk management tools to our producers. We feel the program should be built upon in the following ways:

- We believe the APH methodology should be reformed and county T-yield system improved so as to reduce the impact of local weather phenomena and allow the producer's insurable yield (pre-deductible) to reflect what the producer and his lender would actually hope and expect to produce in that year. Specifically for sorghum, we would request that RMA exclude the impact of second crop sorghum yields on county T-yields. The T-yields are so low in some of the sorghum producing counties that they provide no protection.
- We would also support improvement to the product development processes so that there would be a clear pathway to bring new policies, like one for sweet sorghum or high biomass energy sorghum, to market. Additionally, we need the sorghum silage pilot program expanded nationwide for 2013.
- In no case should the crop insurance tools, which are purchased by the producer, be encumbered with environmental regulation or other conditions such as payment limits that fall out of the scope of insurance.
- As crop insurance continues to grow in crops covered and area covered, NSP wants to make sure that new products and options for one crop continue to be made available for other crops quickly. For example, sorghum looks forward to having the trend yield adjustment for sorghum in 2013. The trend-yield adjust-

ment option has proven to have significant value for corn and soybean producers in 2012 and sorghum farmers look forward to having the same opportunity in 2013.

- We support a TCO or SCO type product. Our analysis shows that this is a simple way to provide a safety net across a number of geographic areas and different commodities.

Carefully Consider Impact on Planting Decisions

Sorghum is an agronomically important crop across the center of the nation and beyond. However, it is often not the largest acre crop for producers and is extraordinarily sensitive to any incentives that are created in the farm program. No matter which form of assistance is pursued, NSP's second priority is that special care be taken to encourage crop diversity and rotation on the farm to avoid a monoculture system that rejects agronomics in favor of higher government support. In considering options in this regard, we give weight to the following factors:

A program should not dictate or distort planting decisions. Decoupled direct payments are excellent in this regard, but the consensus seems to be they should be eliminated. Going forward, any commodity specific program that is tied to planted acres must be designed with extreme care to avoid creating payment scenarios that incentivize farmers to plant crops with higher inherent value to maximize payments rather than making the wisest possible agronomic decisions.

As we have analyzed the Senate Farm Bill ARC program, we found that there is not a strong amount of coverage per acre for any crop, but inasmuch as the potential benefits are tied to planted acreage we are still concerned about the disparity among crops and the impact that would have on plantings.

The table on the following page shows actual dollars that would have been paid out over the last several years both based upon the county program or on the individual farm level for multiple crops. Our analysis for these four sorghum producers in Kansas, the largest sorghum producing state, shows an average ARC payment of only $2.27 an acre with a trigger frequency of 26.1 percent. Additionally, it shows that sorghum is generally toward the bottom of the payments that would have been made.

In reality, the ARC program is essentially free insurance. Our fear is that when given free insurance, farmers or lenders would pick the coverage with the highest potential payout. This free insurance does not appear to serve sorghum well.

Comparison of Individual Payments to County Payments

Table 1: Comparison of Individual and County Payments in Kansas

County	Crop/Practice	Individual		County (Individual Years Only)	
		Avg. $/Ac	Frequency	Avg. $/Ac	Frequency
Kingman	Sorghum/NI	1.53	35.7%	3.50	42.9%
Kingman	Soybeans/NI	7.19	60.0%	6.53	40.0%
Kingman	Wheat/NI	2.28	38.5%	2.01	23.1%
Ellsworth	Sorghum/NI	3.51	27.8%	3.34	26.3%
Ellsworth	Soybeans/I	12.85	66.7%		
Ellsworth	Soybeans/NI	2.68	40.0%	6.11	46.7%
Barton	Corn/I	2.32	20.0%	0.00	0.0%
Barton	Corn/NI	0.00	0.0%	0.00	0.0%
Barton	Sorghum/NI	0.00	0.0%	0.00	0.0%
Barton	Soybeans/NI	6.02	33.3%	6.81	33.3%
Barton	Wheat/NI	2.99	44.4%	0.00	0.0%
Ford	Corn/I	1.59	11.1%	0.10	10.0%
Ford	Sorghum/NI	3.36	22.2%	3.68	33.3%
Ford	Wheat/NI	1.45	23.1%	1.92	23.1%

* Incomplete County Irrigated Soybean Data.

Based on average dollars per acre received in the 13 comparisons (excluding Ellsworth irrigated soybeans) and using the county data from the years that the producer would have been participating in ARC (green and blue columns), the individual producer would have been better off using the individual choice six times. Based on frequency, the individual choice would have also been the better choice six times. The largest spread between the county and individual average payments per acre was the difference in Ellsworth County for non-irrigated soybeans. The county averaged payments of $6.11 per acre compared to the individual payments of $2.68 per acre while the frequency was very close (46.7 percent for the county versus 40.0 percent for the individual).

While we appreciate the complexity of the cotton program and the challenges of the WTO case, we are also concerned about how STAX would impact sorghum's acreage, especially in high commodity price scenarios given the differentiated high premium assistance rate included in STAX.

Bottom line, while we understand the Committee's desire to tailor programs for those at risk, we urge extreme caution in this area and care so as to not discourage or limit future sorghum plantings. Our priority is to ensure that as irrigation water declines in the Sorghum Belt and market opportunities for sorghum grow in non-traditional sorghum areas like North Carolina, farm policy does not discourage producers from continuing to change. Any policy that is re-coupled to planting will push producers to higher value crops unless precaution is taken to encourage diversity and rotation.

Simple and Bankable Price Protection

With all the discussion about new and complicated options—very reminiscent of the 2008 approach that gave us ACRE and SURE in addition to a traditional safety net, NSP would urge this Committee to step back and focus on what is really needed. In a word, that is stability.

Farm Policy should be simple and bankable. The recently expired SURE program had too many factors and was not tailored to the multiple business risks producers' face—it was not simple. The ACRE program was based on state-wide revenue—it was not bankable. The marketing loan and target prices are simple and bankable—unfortunately the trigger prices are no longer relevant to current production costs.

A program should be targeted and defensible. We believe it makes sense to provide assistance when factors beyond the producers' control create losses for producers.

A program should be built to withstand a multi-year low price scenario. Whether in a revenue plan, or a price-based countercyclical plan, we would prefer to have a set minimum price that serves as a floor or reference price to protect producer income in a relevant way in the event of a series of low price years. Ideally, this minimum could move over time should production costs also increase.

Eliminate Dated Pay Limits

Given the likely possibility that a new farm program would have less certainty for the producer (due to the likely elimination of direct payments) and will therefore be designed to provide assistance only in loss situations, NSP believes the program should not be limited based on arbitrary dollar limits, *i.e.,* assistance should be tailored to the size of loss. A producer should not be precluded from participating in a farm program because of past income experience. Any internal program limits on assistance should be percentage-based (*i.e.,* 25 percent of an expected crop value) and not discriminate based on the size of farm.

Finally, as stated above, Crop Insurance must remain free of arbitrary payment limitations or means tests.

Build Incentives into Conservation, Energy and Research Titles

While we know these titles are not under this Subcommittee's jurisdiction, these additional titles are important in the overall farm policy picture. Sorghum is a highly water efficient crop that works well in various rotation systems, spanning from southern Texas to South Dakota. It thrives in drought prone areas because, whereas other crops will die during a period of prolonged water stress, sorghum will become dormant and thrive again upon taking in moisture. This ability to make a crop under the most water deficient conditions allows sorghum to fit easily into farms where water is becoming more scarce each year. As such, we suggest strengthening existing water conservation language in the Ag Water Enhancement Program (AWEP) in the farm bill to more specifically encourage planting sorghum and other water saving crops. Currently, the program allows incentives for switching to lower water intensity crops, but a vast majority of payments are going to other projects. There is also a place for water conservation language in existing Conservation Security Program (CSP) and Environmental Quality Incentive Program (EQIP) language, and NSP encourages the strengthening of water conservation options wherever practical. Using farm bill conservation programs as a transitional support, farmers will be able to economically justify switching higher value crops to lower water intensity crops over time.

Additionally, grain, sweet and high biomass forage sorghums are all used to produce renewables under economically viable biofuels technologies. We support the continuation of a farm bill energy title and specifically encourage continuing mandatory funding of the Bioenergy Program for Advanced Biofuels from Section 9005 of the 2008 Farm Bill. This program allows incentive payments to eligible biofuels producers that use feedstocks outside the mainstream, like sorghum. It has had positive economic impact on the Sorghum Belt and served as a water savings incentive where aquifers are already depleted.

Finally, sorghum does not enjoy the significant research support by private industry that the large acre crops enjoy. Additionally, we do not receive the public dollars targeted to specialty crops. Therefore, it is a challenge for sorghum to get the investment to continue to make genetic improvement. In reality, sorghum improvement has been quite remarkable over the last twenty years given the fact that we have lost many of the "best" acres sorghum was planted on to other crops, and we have not had billions of dollars of investment. It is critical that sorghum receive investment to continue to make the improvement that will be necessary to help feed a growing world population.

The CHAIRMAN. Thank you, Mr. Stewart.

Mr. Wellman, 5 minutes.

STATEMENT OF STEVE WELLMAN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, SYRACUSE, NE

Mr. WELLMAN. Good morning, Mr. Chairman and Members of the Subcommittee. I am Steve Wellman, a soybean, corn, wheat, and cattle producer from Syracuse, Nebraska. I currently serve as President of the American Soybean Association. ASA appreciates the opportunity to present our views on commodity and risk management programs for the 2012 Farm Bill.

The nation's high budget deficits contribute to our mounting Federal debt. Pressure for spending cuts in all sectors, including agriculture, remains intense and prices for most commodities remain at historically high levels. These factors are driving efforts to reform farm programs as risk management tools rather than income support guarantees. We commend the leadership of the Committee for committing to reduce spending by $23 billion over 10 years during last fall's Super Committee process. This contribution represents agriculture's fair share of deficit reduction. We urge the Committee to make no reduction in funding for crop insurance, which is the foundation of an effective risk management system.

With the limited resources, ASA supports replacing Direct Payments, the Counter-Cyclical Program, and ACRE with a revenue-based program that partially compensates for revenue losses of individual commodities. A revenue benchmark would be established based on a moving 5 year Olympic average of prices and yields. Losses would need to exceed ten percent of this revenue benchmark and compensation would be limited to a ten percent band between 80 and 90 percent of average revenue.

ASA initially supported limiting the percent of acres on which payments would be made to a farm's total crop acreage base. However, the ARC Program included in the Senate Agriculture Committee's farm bill uses the average of planted and prevented-planted acres in 2009 to 2012 as the farm acreage cap. We believe this is a better approach since it more closely reflects recent farming practices.

We support limiting payments to 65 percent of planted acres with a determination of a revenue shortfall at the farm level. Payments on prevented-planted acres would be set at 45 percent.

We also support reauthorizing the existing Marketing Loan Program for all commodities and maintaining existing payment limitations and caps on adjusted gross income.

One of the most important policy results from the last three farm bills is planting flexibility, which allows farmers to base their planting decisions on the market rather than payments from the government. Decoupled Direct Payments and the current Counter-Cyclical Program have enabled farmers to maximize their returns from the marketplace. Preserving planting flexibility is ASA's highest priority in reforming Title I programs.

A revenue program would have a marginal impact on planting decisions. First, it requires actual losses based not only on declines in prices but declines in yields. It would be difficult to anticipate payments prior to planting.

Second, the revenue benchmark is adjusted annually to reflect Olympic average prices and yields. Since the benchmark is not fixed, it would be less likely to get out of line with market conditions over the life of the bill.

Third, farmers would need to experience a ten percent revenue loss before payments would be available. Coverage would be restricted to a narrow ten percent band of revenue and payments would be limited to only a percentage of eligible acres. These factors would mitigate any role of a revenue program influencing producer planting decisions.

It has been noted that by basing support on current-year production, a revenue program would increase prospective outlays for crops that are actually grown. Indeed, the CBO baseline estimate for the Senate's ARC program shows an increase in outlays attributed to soybean plantings of $1.5 billion over 10 years while most other crops show declines. The reason for these changes is that U.S. soybean base acreage, as established in 2002, totals only 50 million acres compared to actual planting acres in 2011 of 75 million acres. The change in outlays indicated in the CBO baseline simply reflect the reality that ⅓ of soybeans are currently grown on base acres for other crops.

In addition, payments under a revenue program would go to producers who, in response to the market, have decided to change their cropping patterns. Since 2002, for example, farmers in southern states have increased soybean plantings by 14.8 percent compared to a 1.6 percent increase nationwide. Coverage under a revenue program would reflect this trend.

As I mentioned earlier, crop insurance is the foundation of an effective risk management system for producers of soybeans and many other crops. Recently, we joined our colleagues from other major farm and commodity organizations in a letter to the Committee asking for your support to keep crop insurance strong in the next farm bill.

Crop insurance has become more expensive for farmers and the government because premiums are based on market prices. Along with high prices comes greater financial risk for farmers. We have been willing to pay high premiums because the financial risk is greater than ever. Crop insurance allows us to borrow money and forward-contract our crops.

That concludes my statement, Mr. Chairman. I am happy to respond to questions later. Thank you.

[The prepared statement of Mr. Wellman follows:]

PREPARED STATEMENT OF STEVE WELLMAN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, SYRACUSE, NE

Good morning, Mr. Chairman, and Members of the Subcommittee. I am Steve Wellman, a soybean, corn, wheat and cattle producer from Syracuse, Nebraska. I currently serve as President of the American Soybean Association (ASA), which represents 21,000 soybean farmers in 26 states on domestic and international issues of importance to all U.S. soybean producers. ASA appreciates the opportunity to appear before you today to present our views on commodity and risk management programs for the 2012 Farm Bill.

The circumstances facing the Committee and Congress in writing the farm bill this year are similar to those that prevailed last fall, during the Super Committee process. The nation's budget deficits remain high, contributing to a mounting Federal debt. Pressure for spending cuts in all sectors, including agriculture, remains intense. And prices for most farm commodities remain at historically high levels, eroding support for Direct Payments as a component of the current farm safety net. Combined, these factors are driving efforts to reform farm programs as risk management tools rather than income support guarantees.

We commend the leadership of the Committee for committing to reduce spending by $23 billion over 10 years during last fall's Super Committee process. As noted at the time, this contribution represents agriculture's fair share of deficit reduction. We urge the Committee to write a bill that does not exceed this level, including not more than $15 billion in cuts to commodity programs and no reduction in crop insurance funding. Soybean producers strongly support the existing crop insurance program as the foundation of an effective risk management system.

Support for a Revenue Program

With the limited resources available to the Committee, ASA supports replacing three existing Title I programs, including Direct Payments, the Counter-Cyclical Program, and ACRE, with a revenue-based program that partially compensates for revenue losses for individual program commodities. A revenue benchmark would be established based on a moving 5 year Olympic average of prices and yields. Losses would need to exceed ten percent of this revenue benchmark, and compensation would be limited to a ten percent band between 80 and 90 percent of average revenue.

ASA initially supported limiting the percent of acres on which payments would be made to a farm's total crop acreage base. However, the ARC program included in the Senate Agriculture Committee's farm bill uses the average of planted and prevented planted acres in 2009 to 2012 as the farm acreage cap. We believe this is a better approach than using crop acreage bases, since it more closely reflects recent farming practices.

In order to meet budget requirements, we support limiting payments to 65 percent of planted acres, with the determination of a revenue shortfall at the farm level. However, we are open to providing producers with a one-time option to select county-level coverage, using county average prices and yields to establish the revenue benchmark and payment trigger. Because this option would be less costly than the farm-level option, payment acres would be set at 80 percent of the acreage cap. Payments on prevented planted acres would be set at 45 percent under both the farm-level and county-level options.

ASA believes a revenue approach would give producers a viable risk management tool that would complement the current crop insurance program. It makes the best use of the limited resources available to the Committee. We also support reauthorizing the existing marketing loan program for all commodities, and maintaining existing payment limitations and caps on Adjusted Gross Income.

Maintaining Planting Flexibility

One of the most important policies included in the last three farm bills is planting flexibility, which allows farmers to base their planting decisions on prospective returns from the market rather than prospective payments from the government. By decoupling the production of specific crops from commodity-specific payments, Direct Payments and the current Counter-Cyclical Program have enabled farmers to maximize their returns from the marketplace. Preserving planting flexibility is ASA's highest priority in reforming Title I programs.

We believe a revenue program, although it would be tied to current-year production, would have only a marginal impact on planting decisions. First, it requires actual losses that are based not only on declines in prices, but declines in yields. It would be much more difficult to anticipate payments prior to planting. Second, the revenue benchmark is adjusted annually to reflect Olympic average prices and yields. Since the benchmark is not fixed, it would be less likely to get out of line with market conditions over the 5 year life of the farm bill. Third, farmers would need to experience a ten percent revenue loss before payments would be available, coverage would be restricted to a narrow ten percent band of revenue, and payments would be limited to only a percentage of eligible acres. These factors would mitigate any role of a revenue program in influencing producer planting decisions.

The Impact on Baseline Spending

It has been noted that, by basing support on current-year production, a revenue program would increase prospective outlays for crops that are actually grown. Indeed, the CBO baseline estimate for the Senate's ARC program shows an increase in outlays attributed to soybean plantings of $1.5 billion over 10 years, while most other crops show declines. The reason for these changes is that U.S. soybean base acreage, as established in 2002, totals only 50 million acres, compared to actual planted acres in 2011 of 75 million acres. The change in outlays indicated in the CBO baseline simply reflects the reality that ⅓ of soybeans are currently grown on base acres for other crops and on non-base acres.

In addition, payments under a revenue program would go to producers who, in response to the market, have decided to change their cropping patterns. Since 2002, for example, farmers in southern states have increased soybean plantings by 14.8 percent, compared to a 1.6 percent increase nationwide. Coverage under a revenue program would reflect this trend, providing improved risk protection to producers in regions where soybean production has been increasing.

Protecting the Current Crop Insurance Program

As I mentioned earlier in my statement, crop insurance is the foundation of an effective risk management system for producers of soybeans and many other crops. Earlier this week we joined our colleagues from other major farm and commodity organizations in a letter to the Committee asking for your support in keeping crop insurance strong in the next farm bill.

Crop insurance has become more expensive for both farmers and the government because premiums are based on market prices. Along with high prices comes greater financial risk for farmers. We have been willing to pay high premiums in recent years because the financial risk of a crop failure is greater than ever. Crop insurance allows us to borrow money and forward contract our crops. There have been no countercyclical payments or marketing loan gains paid to soybean farmers under the 2008 Farm Bill. Crop insurance has become the foundation of our safety net, and we urge the Committee not to make changes in or reduce funding for this program as part of the farm bill.

Conclusion

That concludes my statement, Mr. Chairman. I am happy to respond to any questions you or other Members of the Subcommittee may have.

The CHAIRMAN. Thank you, Mr. Wellman.

Mr. Thompson for 5 minutes.

STATEMENT OF JIM THOMPSON, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL, FARMINGTON, WA

Mr. THOMPSON. Good morning, Mr. Chairman and Members of the Subcommittee. I am Jim Thompson. I got off my tractor yesterday to attend this important hearing and the tractor is still sitting by the way. We are still seeding in eastern Washington where I am a fourth-generation small grains farmer growing pulse crops, wheat, and barley. I am also the current Chairman of the USA Dry Pea and Lentil Council. We are a unique organization that represents producers, processors, exporters, and warehousemen of peas, lentils, and chickpeas.

Peas, lentils, and chickpeas are grown primarily in the northern tier States of Washington, Idaho, Montana, and North Dakota with some chickpea production in California and Arizona. However, acreage of pulse crops is expanding in the Great Plain States of South Dakota, Wyoming, Colorado, Nebraska, and Kansas.

The membership of our organization is fully aware of the budget deficit facing this country. We ask Congress to reject efforts to disproportionately cut farm policy programming that is critical to maintaining a healthy agriculture sector. We ask the Committee to write a bill that does not exceed $23 billion in cuts and not more than $15 billion in commodity programs with no reduction in crop insurance funding. We support an increase in research funding in this bill because the development of new agriculture technology is essential to feeding the growing world population.

Maintaining cost-effective crop insurance programs for pulse producers is a high priority for the USA Dry Pea and Lentil Council. Pulse producers view crop insurance as a necessary risk management tool with over 90 percent of the planted acres enrolled in the current crop insurance programs. The Council opposes major restructuring of the Federal Crop Insurance Program in the 2012 Farm Bill. Producers should be encouraged to participate in crop insurance programs. The Council would oppose provisions like mean testing and conservation requirements that would limit participation in crop insurance.

The commodity title must allow and encourage planting flexibility so producers will respond to market signals rather than government payments. Our industry has suffered through periods of low prices. When low prices return to agriculture, we do not want artificially set target prices that will inevitably distort planting decisions. If post-target prices are not in line with other program crops in rotation, we could see dramatic declines in acres. This would be devastating to our growing pulse processing and support industry that provides important jobs in rural areas. As a pulse farmer, I have lived through low prices and a banker telling me to raise wheat instead of lentils because wheat had a better safety net.

We support the continuation of the Marketing Loan Program and would like to see loan rates rebalanced to reflect current market conditions. Pulse crops have never received a direct payment or a countercyclical payment. The current Counter-Cyclical Program set for pulse crops in 2008 has no relationship to historical or current market conditions. We support its elimination in favor of a market-based revenue option.

Our organization supports a revenue option similar to the Average Risk Coverage Program passed by the Senate Agriculture Committee. The established price for the revenue option should be based on current market conditions and calculated the same for every crop in the program. The revenue option price should have a cup and cap of no more than ten percent in any given year for the life of the farm bill. The revenue option should put every program crop on equal footing based on formula that uses a 5 year rolling average of prices and yields.

Our organization strongly supports a revenue option with a farm-level trigger that is available on planted and prevented-planted acreage. We also support the Senate Agriculture Committee farm acreage cap to determine payments based on average of planted and prevented-planted acres from 2009 to 2012. This reflects that farmers are currently planting *versus* an outdated base-acre calculation.

In conclusion, we would like to reiterate the importance of reauthorizing the farm bill prior to the September deadline. We ask the Committee to maintain a strong and unrestricted Federal Crop Insurance Program that will protect farmers from short-term revenue and yield volatility. Finally, we ask the Committee to support a rebalanced Market Loan Program and a revenue option based on current market conditions that will ensure continued planting flexibility and protection from a multi-year farm revenue collapse.

Thank you for the opportunity to submit these comments on behalf of our organization and the dry pea and lentil, chickpea industry.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF JIM THOMPSON, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL, FARMINGTON, WA

Mr. Chairman and Members of the Subcommittee, I am Jim Thompson. I got off my tractor yesterday to attend this important hearing. We are still seeding in Eastern Washington where I am a third generation small grains farmer growing pulse crops, wheat and barley. I am also the current Chairman of the USA Dry Pea and Lentil Council.

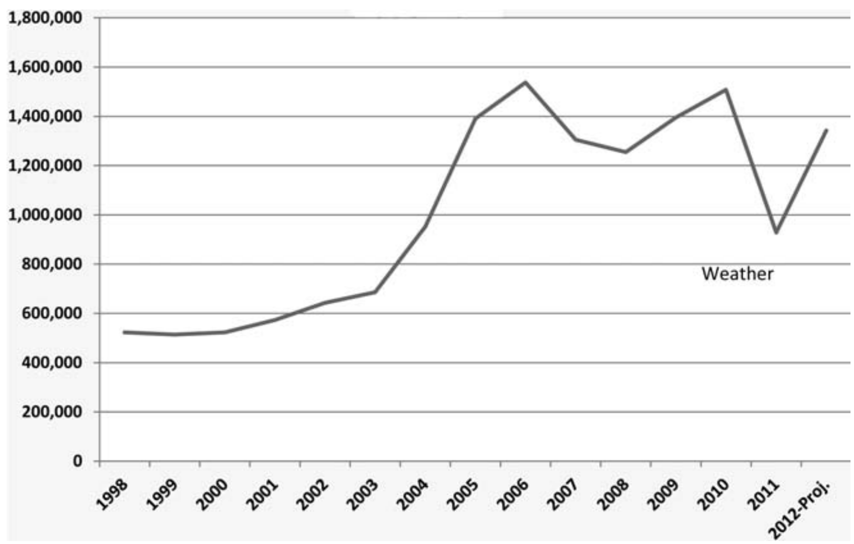
The USADPLC represents producers, processors, exporters, warehouseman of dry peas, lentils and chickpeas (pulse crops) grown in the United States. Our mission is to provide cost effective solutions to the **health, food security, and agricultural sustainability** problems of this great nation. Pulse crops are considered one of nature's "super foods". They contain high levels of inexpensive vegetable protein, dietary fiber (excellent source), potassium (more than a banana), folate and other essential nutrients. In addition to their remarkable nutrient composition these legume plants do not require application of artificial fertilizers because they fix their own nitrogen from the atmosphere.

Dry peas, lentils and chickpeas are grown primarily in the northern tier states of Washington, Idaho, Montana and North Dakota with some chickpea production in California and Arizona. However, acreage of pulse crops is expanding into the great plain states of South Dakota, Wyoming, Colorado, Nebraska and Kansas. Since the year 2000 acreage of pulse crops has nearly tripled to 1.5 million acres replacing summer fallow in mostly dryland crop rotations because of their efficient use of available moisture. The acreage expansion has been fueled by strong domestic and global demand for these healthy, cost effective foods.

Budget Concerns—The membership of our organization is fully aware of the budget deficit facing this country. We applaud the bipartisan effort last fall between the Chairs of the House and Senate Agriculture Committees to reduce agriculture spending by $23 billion over the next 10 years. However, we are concerned that farm policy spending is being singled out for disproportionate cuts compared to other Federal programming. In the past 5 years (2007–2011) farm policy, including crop insurance averaged $12.9 billion per year. Spending on farm policy is less than ¼ of 1 percent of the Federal budget. Farm policy has been subject to three rounds of cuts in the past 6 years totaling roughly $15 billion in real savings. We ask Congress to reject efforts to disproportionately cut farm policy programming that is critical to maintaining a healthy agricultural sector.

Reauthorization— The producers of pulse crops urge Congress to reauthorize the farm bill this year. Agriculture is a risky business that requires huge capital outlays each crop season. My bankers and the suppliers I deal with need to know the outcome of this legislation as soon as possible. Our organization asks the Committee and Congress to pass bipartisan legislation prior to September 2012.

USA Dry Pea, Lentil & Chickpea Harvested Acres 1998–2012



Risk Management

Maintaining cost effective crop insurance programs for pulse producers is a high priority for the USA Dry Pea and Lentil Council. Pulse producers view crop insurance as a necessary risk management tool with over 90% of the planted acres enrolled in the current crop insurance programs.

The Weather—In 2011 pulse producers across the northern tier faced unprecedented spring flooding and excessive moisture during the planting season. The crop insurance prevented planting provisions on many farms was the difference between surviving to plant another year and financial ruin.

Pulse Revenue Pilot—The crop insurance program is the core risk management tool for all northern plains crops, including dry peas, lentils and chickpeas. On March 1, 2012, the Federal Crop Insurance Corporation (FCIC) board of directors approved a pilot revenue policy for pulse crops. Pulse producers have been working to obtain a revenue policy for over 13 years. The revenue policy will be offered in combination with the existing yield policy. Pulse producers consider the option to purchase yield or revenue coverage a critical risk management tool for their farming operations.

508(h) Program—The pulse revenue pilot approved by the FCIC board was submitted under the 508(h) policy development process included in the last farm bill. The USADPLC strongly supports the 508(h) program that allows commodity groups like ours to bring forward new risk management ideas. Recently the USDA made a significant change to the reimbursement rate allowed 508(h) developers. This action could limit future submissions from small commodity groups with limited financial resources. We ask the Committee to review this issue during the farm bill debate to ensure the 508(h) programs remains strong and affordable.

Oppose Restrictions—The USADPLC opposes major restructuring of the crop insurance program in the 2012 Farm Bill. Producers should be encouraged to participate in crop insurance programs. The USADPLC would oppose provisions like means testing and conservation requirements that would limit participation in crop insurance.

Commodity Title

Planting Flexibility—The commodity title must allow and encourage planting flexibility, so producers will respond to market signals rather than government payments. Our industry has suffered through periods of low prices. When low prices return to agriculture, we do not want artificially set target prices that will inevitably distort planting decisions. If pulse target prices are not in line with other program crops in the rotation, we could see dramatic declines in acreage. This would be devastating to our growing pulse processing and support industry that provides important jobs in rural areas. As a farmer I have lived through a banker telling me to raise wheat instead of lentils because wheat had a better safety net.

Marketing Loan—We support the continuation of the marketing loan program and would like to see loan rates rebalanced to reflect current market conditions for the past 5 years. We believe a rebalanced marketing loan/LDP program to be simplest and most affective farm safety net for all program crops. We realize that this idea may fall outside the budget constraints facing the Committee.

Countercyclical—Pulse crops have never received a direct payment or a counter cyclical payment. The current counter cyclical program set for pulse crops in 2008 has no relationship to historical or current market conditions. We support its elimination in favor of a market based revenue option.

Revenue Option—Our organization supports a revenue option similar to the Average Risk Coverage (ARC) program passed by the Senate Agriculture Committee. Crop insurance is a good risk management tool, if prices or yields decline sharply within the crop year of production. However, multi-year price and/or yield declines leave producers vulnerable. The USADPLC supports the establishment of a revenue option to cover shallow losses between crop insurance coverage and the risk of a multi-year farm revenue collapse. The established price for the revenue option should be based on current market conditions and calculated the same for every crop in the program. The revenue option price should have a cup and cap of no more than 10% in any given year for the life of the farm bill. The revenue option should put every program crop on equal footing based on recent pricing history. Our organization strongly supports a revenue option with a farm level trigger.

In conclusion, we would like to reiterate the importance of reauthorizing the farm bill prior to the September deadline. We ask the Committee to maintain a strong and unrestricted crop insurance program that will protect farmers from short term revenue and yield volatility. Finally we ask the Committee to support a rebalanced marketing loan program and a revenue option based on current market conditions that will ensure continued planting flexibility and protection from a multi-year farm revenue collapse.

Thank you for the opportunity to submit these comments on behalf of our organization and the Dry Pea, Lentil and Chickpea producers of the United States.

JIM THOMPSON,
Chairman,
USA Dry Pea and Lentil Council.

ATTACHMENT 1

Comparison of Individual Payments to County Payments

U.S. Crop Prices *vs.* 2008 Farm Bill

	2008 Farm Bill			Crop Prices *	
	Direct Payment	Loan Rate	CC Target Price	5 yr Avg. 2007–2011	2 yr. Avg. 2010–2011
Wheat, All (bu)	0.52	2.94	4.17	6.24	6.50
Barley, All (bu)	0.24	1.95	2.63	4.67	4.63
Corn (bu)	0.28	1.95	2.63	4.68	5.69
Soybean (bu)	0.44	5.00	6.00	10.52	11.50
Cotton, all (lb)	0.0667	0.52	0.71	0.71	0.91
Rice All	2.35	6.50	10.50	14.12	13.45
Sorghum (bu)	0.35	1.95	2.63	7.66	9.93
Peanuts (ton)	36	355	495	460.33	505.00
Canola (cwt.)	0.8	10.09	12.68	19.09	21.30
Dry Peas (cwt)		**5.40**	**8.32**	**12.01**	**12.24**
Lentils (cwt)		**11.28**	**12.81**	**28.61**	**28.55**
Small Chickpeas (cwt)		**7.43**	**10.36**	**22.41**	**21.45**
Large Chickpeas (cwt)		**11.28**	**12.81**	**32.56**	**36.00**

* *Source—USDA/NASS Annual Crop Values.

The CHAIRMAN. Thank you, Mr. Thompson.

I remind Members that the chair will recognize Members in order of seniority, for the Members who were here when the hearing reconvened. After that, Members will be recognized in the order of the arrival. And I appreciate my colleagues' understanding.

And now, I will have my 5 minutes.

Mr. Younggren, wheat's baseline under the Senate farm bill took something in order of a 58 percent cut. On average over the last 5 years wheat has planted something like 20 percent less than the base acres. I suspect I know the answer to this, but can you visit with me about how you feel how equitable that treatment is under the Senate's version?

Mr. YOUNGGREN. We do recognize that wheat does take a significant portion of cuts. A lot of that is due to the loss of our primary safety net tool, the direct payment. We realize that we are in a new program now that is going to protect—well, the ARC Program basically protects on a farmer's revenue and we have different revenues than the other crops have. We feel that by moving that coverage level down to 65 percent or to 75 percent, that band, you will have more money coming into the wheat industry than the other crops.

The CHAIRMAN. Thank you.

Mr. Morris, you mentioned the University of Georgia study in your opening comments and you may have said this, but just for the record, would you reiterate that based on their analysis, will the Senate's ARC Program work for peanut growers? And the second question would be, have you found any shallow loss revenue program that will work for peanut growers?

Mr. MORRIS. Yes. The loss that we have had as far as shallow losses of peanuts has been very minimal in the past years because of the price and the situation. And of course we need the safety net we feel of the countercyclical payment, and realizing, too, that a long level is set low, that there wouldn't be a cost to government. So we feel that the peanut program, as we have discussed, we do not have a Chicago Board of Trade for us to work off of in setting prices, so our losses would be very minimal so far as the loss is concerned, too.

The CHAIRMAN. All right. Thank you, Mr. Morris.

Mr. Stewart, the farm bill that was put together by the top four last fall, can you talk to us about how you feel that would impact planting decisions? Or would it influence planting decisions in your view?

Mr. STEWART. Well, from what I know about the proposal last fall I really don't think in my area it would have that much effect on planting decisions. And really throughout I was really pleased with that language and I firmly believe that it would have been a good program. And it would have sure saved a battle that we have in front of us now.

The CHAIRMAN. All right. Thank you, Mr. Stewart.

Mr. Wellman, we have about two against four, or two against three—I was coming to the other panels for the reference to the Senate's ARC proposal, and they are asking for options other than ARC. What would be you and your organization's position with respect to allowing other commodities an option other than ARC that might benefit their circumstances?

Mr. WELLMAN. Well, last fall, the American Soybean Association and some other organizations wrote a letter to the House and the Senate Agriculture Committees during the process of developing the farm bill at that point in time, and our position there was that we are open to other alternatives as long as it doesn't distort planting and allows for planting flexibility. And our position is that target prices, if they would be decoupled from actual plantings, that may be an alternative that we would be open to be interested in.

The CHAIRMAN. So what would you say to the folks in Texas who are more interested in price protection over multiple-year low prices than what the ARC position would do in setting up that choice?

Mr. WELLMAN. Well, I am not sure—say that again, please.

The CHAIRMAN. Well, in terms of other states, price protection against multi-year lower prices seems to be more important to them than the ARC Program. Do you take a position either way on that?

Mr. WELLMAN. Well, I will say that the process that we have gone through to develop our position for the Soybean Association started over 2 years ago and with the Farm Bill Task Force covered many regions, all regions of the soybean production area and also two resolution sessions of our delegate body. And we have had input from across the soybean production area and the overwhelming majority has an interest in a revenue program, something that actually reflects what is being planted out in the current production areas and the crops that are being produced now. And to have an effective risk management program, it needs to have a tie to the crops that are actually being planted.

The CHAIRMAN. All right. Thank you, Mr. Wellman.

Mr. Boswell for 5 minutes.

Mr. BOSWELL. The Ranking Member first if you want to.

The CHAIRMAN. All right. He yields to Mr. Peterson for 5 minutes.

Mr. PETERSON. I thank the gentleman.

I guess following up on the Chairman's questions, my concern is what is going to happen if we get into a low price situation for a number of years? And, given the extra subsidies that we put into crop insurance for enterprise units and the shift that has gone on—I don't know, it just seems like we are duplicating what we are already doing in the crop insurance system with this revenue. So, the first question is, are all you guys that are supporting this going to guarantee me that if we have $3 wheat for 5 years you are not going to be in here asking for help? I mean that is what I am concerned about. I mean the farm program should be about providing a safety net when things are a problem and it should not be about the government increasing your profit. We don't get into a situation like that. So I don't know if any of you want to respond to what I said but——

Mr. STEWART. Mr. Peterson, I would respond to that. You know, we are not looking for any kind of a guaranteed profit, and as you are well aware, crop insurance only gives us 1 year of——

Mr. PETERSON. Yes, and that is exactly my concern.

Mr. STEWART. And I especially appreciated your comments yesterday when you used the term—you didn't want us to be lining the halls up here in 2 or 3 years and that is why we are proposing some sort of a revenue policy. And I am not proposing it to be high enough to guarantee a profit, just to——

Mr. PETERSON. Well, yes.

Mr. STEWART.—stay in business. And I would just reiterate that I really appreciated your comments yesterday and I, too, don't want to be up here lining the halls in 2 or 3 years. That is why I would ensure and encourage the Committee let us take care of business now and in 2 or 3 years I can be on my farm where I belong.

Mr. PETERSON. Right. Well, the reality is you could come up here in 3 years and it won't do you any good because there isn't going to be any money.

Mr. JOHNSON. If I could respond, thank you very much for the question.

Farmers Union has long believed that the safety net ought to be constructed in such a fashion that it kicks in only when times are difficult. So there are really two kinds of really difficult times that we face in agriculture—you have disasters that strike. You kind of have crop insurance that is fundamentally designed to deal with that because they are annual kinds of things. Crop insurance works well in those circumstances. You have permanent disaster programs that were put in place in the last farm bill. Yes, they could be modified, lots of changes could be made there, but fundamentally, they need to be constructed in a way that they do not disincentivize the carrying of crop insurance. So that is one circumstance, when disaster strikes.

The other circumstance which we face frequently and across the entire industry is in times of low prices. And I commend the Committee Members for their focus on this question because that is a very important question. If you look at the charts that we provided in our testimony, all of those big payments that were made back in the base period, they weren't target price-based on even marketing loan-based; they were *ad hoc* disaster payments that were economic emergency disaster payments designed to cover price collapse situations. So we would absolutely concur with your focus on trying to do something that deals with long-term price collapse. That hits everybody across the board.

Mr. MORRIS. Congressman, I would like to make a comment or two there on crop insurance and of course we appreciate the peanut farmers having crop insurance. But our crop insurance kind of follows the market. As our market goes down, our insurance goes down, so really in essence it doesn't cover the cost of production. I think this year we had a little over $600 as far as insurance is concerned, we have had contracts from $500 to $700 on peanuts for this year. So the peanut farmer you can see that the $500 figure is not going to cover the cost of production for the farmer unless he makes a really high yield. So growing peanuts—and when you look at seed prices of $1.15, you look at fertilizer prices, you look at $200,000 tractors, $115,000–$20,000 peanut combines, the cost of equipment. So we need some stabilization there in our crop insurance. We are working on hopefully getting a new program for next year of a revenue type deal that will have a basis there for peanut farmers. But to answer that, we do need some help in that area to make it work. We appreciate the insurance program. We appreciate what is going on. We just need to try to make it to where it is a good, viable program for peanut farmers.

Mr. WELLMAN. Do we have time for another response?

Mr. PETERSON. Absolutely.

Mr. WELLMAN. Thank you, Mr. Chairman.

Definitely we know the history of prices and they are cyclical and there always is a possibility of price declines. With the revenue program, that is one factor of determining the revenue. The other factor is yield. So depending upon the depth of the price decline, if yield makes up the difference, there would not be a loss underneath the revenue program so therefore would not be a payment made. We do need to consider what the price cyclical patterns might be, but we also have to keep in mind that that is only one factor in determining when payments are made.

Second, I began farming in 1981 and I remember the days of planting crops that were tied to base acres and because of the target, because of the government program that was tied to the base acres. From 1995 on we have had the freedom to plant crops and respond to the marketplace. We need to avoid going back to the days of being tied or being incentivized to plant crops because of the government program and have the ability to plant to the marketplace.

The CHAIRMAN. The gentleman's time has expired.

The Ranking Member is recognized for an additional 30 seconds.

Mr. PETERSON. I mean if we are going to do a target price program, it is not going to be tied to base acres. It is going to be tied to planted acres. And I have yet to find a farmer in my district that says that people are going to change their planting because of the target price the way it was in the Super Committee bill. I have not found one. I bet I have talked to over 100 farmers. And what they tell me, it is the fifth or sixth thing they consider when they decide what crop to plant. You know, it is so far down the line that I don't think it makes any difference. So we are not talking about going back to any base acres if we look at this kind of a situation. And, my time has expired but maybe somebody can ask this panel what they think about what the target prices would do to the marketplace.

Thank you, Mr. Chairman.

Mr. LUCAS. [presiding.] The gentleman's time has expired.

Mr. THOMPSON. Mr. Chairman, could I have an opportunity to address questions?

Mr. LUCAS. Mr. Thompson, on these very important issues we will indulge you for 30 seconds, yes, sir.

Mr. THOMPSON. Thank you, Mr. Chairman.

I guess the one thing we were looking at with the revenue policy, we are trying to get an equal and equitable program here for all crops considered, and we aren't against target price but if a target price is selected that it is equal across all the crops. However, if that is done, I am not sure that that would fall within the budget constraints that we are working under. That is our concern with that. Thank you.

Mr. LUCAS. The gentleman's time has expired. I now recognize myself for 5 minutes.

Mr. Younggren, you note that farmers in the South—and I would add the Southwest—began planting wheat late August, September in my home area, any time after the 1st of September if there is enough moisture. Many of these same farmers have made it abundantly clear to me that the shallow loss program does not provide an adequate safety net for all of their crops. Do you support giving producers options instead of forcing all of them into a one-size-fits-all policy?

Mr. YOUNGGREN. Yes, we recognize that different regions of the country have different needs and we support options for those farmers.

Mr. LUCAS. Thank you very much.

Mr. Morris, we have heard a few of the national commodity groups claim that protecting against multi-year price declines is just a rice and peanut issue. Now, you are a diversified producer, correct? Do you agree with that philosophy?

Mr. MORRIS. Yes, I am a diversified producer, exactly. Peanuts, we don't have any market that we can go back to other than Rotterdam markets. We are not on the Chicago Board of Trade so it is very hard for us to establish something that would be good for peanuts.

Mr. LUCAS. And as a producer of more than just peanuts, it is an important issue for your other crops, too, correct?

Mr. MORRIS. Yes, sir.

Mr. LUCAS. Can you expand on why you believe providing producers with choices or an option among risk management tools is important to crafting that safety net?

Mr. MORRIS. Yes, sir, it is very important that we have something that will help us and have a safety net that we can produce. Of course, irrigated ground in Georgia produces pretty good and we can make it but then we have probably 60 percent of the land in Georgia is dryland so we have to have something that is going to help those farmers to stay in business. So they need some type of coverage to help them.

Mr. LUCAS. Absolutely.

Mr. Stewart, in addition to sorghum, I know you plant wheat, so let us put on that wheat hat for just a moment. How do you view the shallow loss revenue program as the Senate Committee has adopted it? On your wheat acres I guess I should say is shallow loss something you are concerned about?

Mr. STEWART. Well, we have run an analysis on my actual wheat farms——

Mr. LUCAS. Yes.

Mr. STEWART.—to sorghum producers, ran an analysis on the ARC on my wheat and it is a lot like it is on sorghum. It is just too shallow. I think you will appreciate this, after last year a shallow loss would be a victory. I really more lean towards our SCO-type product that we are promoting, which is a shallow loss also but at least I like the idea with our budget constraints of being able to kind of pay our way. And it is up to the Committee to decide if they do this what subsidy level that premium might be, but I still like the idea of paying for my protection because we have to protect the budget of this country.

Mr. LUCAS. In your statement you also discuss the importance of having a reference price and a plug yield built into any revenue-based program. Could you expand for a little bit on why that is important in your view based on the crops you grow?

Mr. STEWART. Yes, I can. The reason I promote a plug yield is that I have been pretty fortunate in my farming career I haven't endured a long-term drought but I grew up in one. In the 1950s we had a 7 year drought and luckily my father with conservative living, 10¢ fuel, and $2 wheat we survived it. But with $4 fuel and $6 wheat, that is no longer practical. And I like the idea of the personal t-yield as a percentage of it as a plug yield because that way our plug yields are reflective of our actual farming practices on our farm. And I do support some sort of a revenue product simply because we don't have any protection in crop insurance against a multi-year low price and we don't have the option of planting other crops. You know, and where I live it is wheat and sorghum and we can't lean back on corn or soybeans. If there is something in their program that makes it look more attractive, it won't work for us anyway.

Mr. LUCAS. Mr. Wellman, my soybean growers in Kay County, Oklahoma, in the northeast part of the 3rd Congressional District, which by the way is the largest soybean-producing county in Oklahoma, are planting soybeans on a wheat base, a trend you referenced in your statement. Those acres currently draw $16 per acre in direct payments. Under the Senate ARC proposal, the most ARC that would ever be paid no matter how far the market falls on soybeans in Kay County would be $18 an acre. That is $2 above what the direct payment would have been.

But by contrast, looking at the numbers across the country, in your home county producers receive an $11 per acre direct payment on soybeans but the Senate ARC proposal could pay up to $38 an acre, a little bit of a difference there. Now, I understand why you like the ARC proposal, but tell me, how do I sell this to soybean producers in my part of the country?

Mr. WELLMAN. Well, Mr. Chairman, as I just stated earlier, the proposal from the American Soybean Association does reflect input from our delegates from across a growing area. And definitely there are differences in regions; there are differences in locations. I am southeast Nebraska. Where I am at is a non-irrigated area. You know, maybe evidently my production capability is a little higher than those in your biggest district, but what we took into consideration is having payments made only when there is an actual loss on the farm and also with the current limitations on the available resources.

Mr. LUCAS. But my question I guess is, how is the Senate version of the proposal as it stands now equitable and fair to all soybean producers?

Mr. WELLMAN. Well, I am not going to sit here and say that it is necessarily but I think that same question could be asked for some of the other programs, too. When you start basing target prices based on cost of production, the cost of production varies throughout all the growing areas——

Mr. LUCAS. So looking at the numbers, if the Senate ARC proposal were to be the proposal, would you be in favor of giving the option so that soybean producers outside of your area who might have a potential to have a better shot at a safety net that they would be able to make that choice, or do you stand firm with the concept that one-size-fits-all, we are all going to be there together?

Mr. WELLMAN. We are open to the target price option as long as it is decoupled from current plantings.

Mr. LUCAS. My time has expired.

The chair now recognizes the gentleman from Iowa for 5 minutes, Mr. Boswell.

Mr. BOSWELL. Thank you, Mr. Chairman.

Mr. Peterson, I was following your dialogue there. Did you want to wrap it up? I would be glad to yield for a minute. In case you change your mind, let me know.

Mr. Johnson, you point out a safety net must protect against long-term multi-year price collapse and so on. You may have covered that in different things you have said, but just to review, how should that be done? What sort of mechanisms should be in place in your opinion to ensure that farmers who need assistance will receive it?

Mr. JOHNSON. Yes. So there are a couple of policy tools that can be used to provide long-term price protection. Obviously, the one that we have spent a lot of time and effort on, the Market-Driven Inventory System, is one of those options. We think it is the best option because it is the most affordable for the government and it maintains net farm income. The reason it is the most affordable is because the only cost the government really would incur would be in the event of storage payments. And it wouldn't pay on every bushel because it wouldn't have to because the effect of the policy would be to lift prices.

It also enjoys total planting flexibility. We don't care what anybody plants. It is indifferent. Let the market adjust as it wishes as to which crops producers want to plant. The only thing that is really important there is that you balance those loan rates just like you would need to balance target prices, which is sort of the second policy option tool that you have in providing some sort of long-term price protection.

If you do target prices or marketing loan kinds of programs, they simply transfer payments from the government on the basis of every bushel produced, whereas what we are proposing you don't pay on every bushel produced; you pay on maybe 20 percent of the bushels in order to get the price lift. So that is the fundamental difference you have.

And we are supportive of both of them. Let me be very clear about that because having long-term price protection is enormously important in agriculture. The thing that you all are going to have to juggle is how much of the economy is going to project that the price is going to fall because the deeper that they project it falling, the higher the cost for doing a target price marketing loan kind of policy instrument it is going to be and that is the issue that you have in front of you.

Mr. BOSWELL. Well, thank you.

Any of the rest of the panel want to comment on what was just said? That means you all agree? Well, Mr. Johnson, you have quite a following.

Mr. WELLMAN. Well, since he mentioned whether we agree or not, I think I should just not say—the important point is if you are trying to develop the program under the current fiscal conditions that we have in the United States, we definitely need to take into consideration what the cost of the program is going to be. And from our standpoint, when we approach this, the revenue program, it was a program that would pay the producer when there is a loss and it would make efficient use of the taxpayer dollars.

Mr. BOSWELL. I appreciate that. A lot of us on the Agriculture Committee have been through the school of hard knocks about how to deal with the capital cost of doing what we do. It takes a lot of capital to go to the field, whatever crop when you put all those things in there. And it has been kind of stressful to me when—you have heard it before—but when the media reports all the prices like it has been very good the last couple years, but they neglect, Mr. Chairman, to report the cost of input so you can see what is really going on out there. So therefore the inner city folks—and that is very important to us—don't get a full appreciation of how we manage to have this very special thing, United States of America, and that is the available, safe, low-cost food.

And so we have a big challenge here and we have been talking about how to economize and we all know we need to do it, but we have to protect agriculture. It has been creeping up there but it is finally up there with the category of energy or whatever else you want to refer to. And with the exploding population of this world, we are on the front burner and it is something we want to do right.

So I appreciate your response and I am sure we are going to have further dialogue. Thank you very much. I yield back.

Mr. LUCAS. The gentleman's time has expired.

The chair now turns to the gentlelady from Ohio for 5 minutes, Mrs. Schmidt.

Mrs. SCHMIDT. Thank you, Mr. Chairman.

I am going to start with Mr. Younggren. You say your highest priority is the portion of crop insurance premiums subsidized by the Federal Government. As you know, there have been many calls to either reduce the premium levels, or apply payment limits to crop insurance premiums. What impact would this have on your growers?

Mr. YOUNGGREN. Right now, a lot of wheat growers are seeing—in the Chairman's district we have serious droughts—their coverage is going down and their premiums are staying the same or getting higher. Any payment limits that affected how growers purchased crop insurance we feel would jeopardize the program and some farmers would drop out of the program, make the program less reliable for those in the higher-risk areas, which is traditionally wheat country.

Mrs. SCHMIDT. Thank you.

Does anybody else want to add to that? Mr. Morris?

Mr. MORRIS. I would like to respond. In Georgia, for instance, we have had 2 drought years, 2 of the worst probably in the history of the State of Georgia in our growing year. Last year, I had a dryland farm of peanuts that was assessed at 52 pounds per acre. Our state yield was 3,550 pounds per acre. So as you can see, insurance, it does down because of the production. So we have to take account of yield, whatever that might be, 1,700–1,800 pounds on the 65 percent level. So you can see that we do not have the coverage when I just expressed to you that it costs now for an acre of peanuts in my testimony. So you can see that we need some help

I suppose and protection against bad years such as the wheat farmers do or any other, wherever there might be droughts. Texas has experienced some exceedingly bad drought periods in peanut production areas and cotton. So——

Mrs. SCHMIDT. Thank you.

Mr. MORRIS.—it needs some help. Thank you.

Mrs. SCHMIDT. Okay. Mr. Johnson, I am going to ask you, we hear often how lenders now require crop insurance coverage in order to make operating loans. And I hear that in my own district. How important is crop insurance to securing financing for the year?

Mr. JOHNSON. Crop insurance is very important and if I think that there is anything all of us up here and probably everyone on the panel yesterday agrees on and most folks, probably every one of you as Members of the Committee agree on as it is important to have a strong crop insurance program. We may differ in how you construct it. For example, on the question of payment limitations, our members at our recent convention voted to support payment limitations on crop insurance because there is a concern that, especially in these high price years, the level of protection on the crop insurance is very, very strong and that they believe that it is used as an advantage by the larger farmers to squeeze out a lot of beginning farmers from entering the business.

Now, the question is how would you construct such limits? I mean you wouldn't simply cut them off. All you would do is have a limit as to the amount of the Federal Government subsidy and what that limit should be. And once a producer of a certain size reached that limit, then they would still buy crop insurance; they would just make the choice on full cost *versus* the subsidized cost.

Mrs. SCHMIDT. Thank you.

Mr. Thompson, I appreciate your comments on the importance of crop insurance. I think everyone here would agree. How do you think we can best improve crop insurance of the pulse crop producers?

Mr. THOMPSON. Thank you for the question. Actually, I was back here March 1 of this year and the FCIC Board of Directors approved a pilot revenue program for our crop, which we have been working on for about 13 years to obtain. And it is important to us. And getting back to when you asked about the bankers, and in our area we have pulses and wheat production in our area, and when you can get 85 percent protection on your wheat and basically just have the multi-peril, which is good but it is not revenue. It doesn't protect against price fluctuations during the year.

So anyway, we were happy to get this pilot program and it would be just like with the wheat and whatever else, the CRC, we are asking to help in that area of subsidy in that area. Thank you.

Mrs. SCHMIDT. Thank you very much.

Mr. LUCAS. The gentlelady's time has expired.

The chair now turns to the gentleman from Minnesota, Mr. Walz, for 5 minutes.

Mr. WALZ. Thank you, Mr. Chairman.

And first of all, I wanted to thank all of you and your membership for doing very important service to this country, feeding us, clothing us, and fueling us. As we look back I am very proud of the work we did on the 2008 Farm Bill collectively together. When you look out in farm country right now, things are going pretty well. But I appreciate all of you saying that is for now and we need to prepare for the future. We need to get this right. And I am confident we can.

I want to hit on just something, again, narrowly focused. Mr. Wellman mentioned and several others have that I think we are trying to get our mind wrapped around. And in the 2008 Farm Bill we did a pilot program on farm flex, allowed for flexibility on planting acres. And it was geared mainly in the area—we have a lot of those acres in Minnesota—where we have a large canning industry in terms of especially Del Monte and Green Giant and those areas. But what it was also aimed at was giving some of that flexibility some of you talked about here while still providing the safety net underneath. It was one way to manage stewardship of the land if that was the cast on crop rotations, but it also allowed for the flexibility the market was demanding more canned goods there, and some of the things that come from some of our other industries but it allowed folks to move from those commodity crops.

And I know this is something that scared people. It was scary to get it in on the pilot program to move some of these crops to allow people to do that. I wish some of you could comment a little bit. Was that farm flex piece of legislation the way to go? Is that the way to strike the balance between planting flexibility and still keeping some control over this? Whoever wants to pick that one up.

Mr. JOHNSON. Nobody is jumping at it, Congressman. You know, and probably the reason for that is particularly folks that represent individual commodities, it is less of an issue.

Mr. WALZ. Yes.

Mr. JOHNSON. It is an issue for folks who want to do different things. You know, and the fruit and vegetable industry has historically been very skeptical of allowing the planting of their crops on base acres or whatever you want to call them, commodity acres——

Mr. WALZ. Right.

Mr. JOHNSON.—and so I mean my sense is that that was a good way of trying to—we are all talking about planting flexibility and letting folks do what the market is asking for, and particularly with canned goods where you have a very defined market that is surrounding them. Principally, those producers are going to be working on a direct contract with a cannery. It seems to me like it makes a whole lot of sense to allow for that sort of flexibility.

Mr. WALZ. Well, the reason I say it, it seems very popular amongst those folks. I understand like you are right and the fruits and vegetables folks, the fresh fruits and vegetable folks, we get very provincial and I don't blame you. I mean that is where we are at. What the Chairman is trying to do and what we have always tried to do is strike that proper balance amongst all of us. We are all in this together and this one appeals to that sense of give us back some control of where we go. We are not going to assume all the risk, nor should they, because it is food for everyone, but allow us a little bit of that flexibility.

Mr. Johnson, I am going to come right back to you on this. This kind of segues right into that. This idea of whole farm revenue insurance where we have this and in different parts of the country, and I am very appreciative of this, if it is drought in Georgia, you don't have the opportunity to move to a different crop. Those areas of the country where you do, we have very diversified operations. And you represent a diversified commodity group here. Could you talk a little bit about how does that play into this? Again, moving away from the one-size-fits-all, how do we get that whole farm revenue?

Mr. JOHNSON. Whole farm crop insurance programs are underappreciated in agriculture and maybe that is because we tend to sort of think crop by crop or commodity by commodity. But in a lot of areas of the country—yours would be one of these—where you have a lot of different crops that are planted, you want to provide an environment in which farmers are allowed to plant what they think makes the most sense but yet have the same kind of risk management tools that cover all of them available for them. The big challenge that folks that have multiple crops in a rotation face is they can't get a decent APH because if you are not planting this crop this year, you don't get a yield this year. And so it may take 10 years to get 2 years worth of yield in it. And so the whole farm programs are designed to try and address that. They also should be lower premium as a result because the risk is lower when you plant a variety of different crops.

Mr. WALZ. I don't want to single any of you out. I know this is very difficult. Is there room in a farm bill for this type of ability where we are going to have to find some compromise? I am going to tell you this approach especially—and I know it is geographically and it is my area and a few others or whatever—but it is very appealing to people, especially very appealing to producers and young farmers who feel like they are more in control where they are not being told by the government which direction to go in. They get to make those choices. And if they choose to do down the program crop road, we should be there helping and doing what is necessary there. Do you think there is room in this in a farm bill for this type of thing for the farm flex from the whole farm insurance?

Mr. STEWART. Well, I will respond briefly to that, and even though it certainly doesn't apply to me because where I am located I am so limited——

Mr. WALZ. Yes.

Mr. STEWART.—but it would be a great program. I think anything we can do to enhance food production in this country definitely needs to be looked at.

Mr. WALZ. I appreciate that.

Mr. LUCAS. The chair yields the gentleman from Minnesota an additional minute. Would the gentleman from Minnesota yield to the chair for the purpose of a question?

Mr. WALZ. Absolutely.

The CHAIRMAN. I thank the gentleman.

Mr. Johnson mentions support for payment limits on crop insurance. Could we go down the panel starting with Mr. Younggren what you or your organization's opinion is or position on payment limits on crop insurance? Just work our way across, please.

Mr. YOUNGGREN. We would oppose payment limits on crop insurance.

Mr. LUCAS. Mr. Morris?

Mr. MORRIS. Yes, sir, we would have to oppose payment limitation because of the different size farming operations and it would be very hard and it just wouldn't work really for us. And not only that, because of the diversity between crops also.

Mr. LUCAS. Mr. Stewart?

Mr. STEWART. Well, please excuse me here, Mr. Chairman, but not no, but hell no.

Mr. LUCAS. Delivered in a very Panhandle Oklahoma sort of way. Mr. Wellman?

Mr. WELLMAN. We would oppose payment limits on crop insurance.

Mr. LUCAS. Mr. Thompson?

Mr. LUCAS. As well we would oppose payment limitations.

Mr. LUCAS. The gentleman from Minnesota's time has expired.

The chair now recognizes the gentleman from Ohio, Mr. Gibbs, for 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman.

Just a couple comments. Would everybody agree that the crop insurance revenue program would maybe be the best vehicle to provide a safety net *versus* like *ad hoc* disaster payments? Would we like to move that way? I think, Mr. Wellman, that is what I get from the Soybean Association as long as it has flexibility. And obviously the last question if we don't cap crop insurance payments then is that the vehicle we should really be using to provide a safety net?

Mr. WELLMAN. Let me make sure I understand the question. The vehicle we should be using is crop insurance?

Mr. GIBBS. Yes.

Mr. WELLMAN. Yes, we would agree with that as opposed to *ad hoc* disaster?

Mr. GIBBS. Yes.

Mr. WELLMAN. Yes, we support the use of the Federal Crop Insurance Program. We think it is well accepted by the producers, the farmers. We pay a percentage of the premiums, a percentage of the cost of that program——

Mr. GIBBS. Yes.

Mr. WELLMAN.—and it works very well for the majority of the commodities.

Mr. GIBBS. What is the participation rate between your members you think in the Federal Crop Insurance Program?

Mr. WELLMAN. I might have to get back to you on that exact number if you would like to have that. I can't tell you offhand. I don't want to guess at it.

Mr. GIBBS. That might be nice to know.

Mr. WELLMAN. And the percentage of our membership or percentage of soybean acres——

Mr. GIBBS. Let us go just soybean acres. Do you have a ballpark idea or not?

Mr. WELLMAN. I don't think we have that right now.

Mr. GIBBS. Okay.

Mr. WELLMAN. Excuse me, 83 percent of the acres are covered by crop insurance.

Mr. GIBBS. What do you suppose it was 10 years ago?

Mr. WELLMAN. Less than that.

Mr. GIBBS. That was my assumption, too.

Mr. WELLMAN. Yes.

Mr. GIBBS. So——

Mr. WELLMAN. And there obviously were less soybean acres back then also.

Mr. GIBBS. That is true, too.

Mr. WELLMAN. Yes, so there has been not only an increase in the soybean acres but an increase in participation of soybean farmers in the Federal Crop Insurance Program.

Mr. GIBBS. How about on the wheat side? Where is our wheat person?

Mr. YOUNGGREN. Yes, I agree. We have seen drastic improvements in crop insurance. From personal experience going through the 1990s and the early 2000s, my county was the poster child for disaster payments and we were the *ad hoc* disaster people always out here that Congressman Peterson is referring to.

Mr. GIBBS. Yes.

Mr. YOUNGGREN. So with that in mind, we pushed for the SURE Program in 2008 as kind of a permanent disaster legislation. We would still like to see a program such as that.

Mr. GIBBS. I just going back to Mr. Wellman, in your testimony you talk about the need, flexibility and all that. The whole farm coverage, can you kind of expand to me how that interacts, the coverage for your members' participation and how that is working? And what does the level need to be for taxpayer subsidy to make this thing work, the crop insurance side? Do you understand what I am getting at?

Mr. WELLMAN. Well, specifically to whole farm crop insurance?

Mr. GIBBS. Yes, whole farm, yes.

Mr. WELLMAN. I don't know that I have that answer either. I don't know. I don't know what the whole farm policies and participation is from just particular soybean acres. On our farm we use the enterprise units, but I think that we are in the minority until just recently we have had a reduction in the cost of the premiums for the enterprise units. It has made it more attractive to producers to be involved and to not cover individual farms with crop insurance and move towards the enterprise units. A lot will depend on how the program is structured, the cost of the premiums to the producers, and the potential payouts of the indemnity and the risk factors that are involved.

Mr. GIBBS. Does anybody do any calculation? I think it was you, Mr. Wellman, that talked about the 65 percent maximum pay or, concern about our budget, the taxpayer, we started to say on our budget framework. Can you expand a little bit on there if there are any calculations to see if we have nearly 100 percent participation of what the percent subsidy would have to be you think?

Mr. WELLMAN. Well, in my testimony when I mentioned 65 percent, that was on a revenue program that is not part of the crop insurance program. It would be tied to the farm level production and comparing the current year production to the Olympic average——

Mr. GIBBS. Okay.

Mr. WELLMAN.—of the previous 5 years of the revenue. And that is part of the ARC Program that came out of the Senate Agriculture Committee. The 65 percent number was a percentage of coverage of payment acres. And on a county level they would pay out on 80——

Mr. GIBBS. Eighty-five——

Mr. WELLMAN.—percent of those. And the reason that has dropped to 65 at the farm level is because it would be more costly. So that has been compensated for.

Mr. GIBBS. All right, thank you.

I yield back my time.

The CHAIRMAN [presiding.] I thank the gentleman.

The gentleman from Georgia, David Scott, for 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

Mr. Morris, I have a couple of questions for you. I know you may have mentioned it in your testimony but let me ask you, can you please reiterate for the Committee what peanut producers see as—I am over here, Mr. Morris. My cousin is over there, Mr. Scott. We are both from Georgia. Could you please reiterate for the Committee what peanut producers see as most important in crafting an effective safety net?

Mr. MORRIS. Well, I feel just as I stated in my statement there that the $534 target price and then of course having some countercyclical price because of the way the market works on peanuts and us not having any marketing system that we really can base prices off of. And of course we are working on insurance policy that hopefully is going to come into effect next year that would give better coverage for peanut farmers. And our commodity is a perishable commodity. Those peanuts have to be shelled out within less than 12 months. We have to monitor our warehouses for insect damage and we have to provide a safe food to the consumer. So it is very important for peanuts.

Mr. DAVID SCOTT of Georgia. And I certainly agree with you. The peanut industry is very, very, very important. And again I want to make this perfectly clear. In your opinion and in the opinion of other peanut growers, does the Senate Agriculture Committee-passed bill provide an adequate safety net for peanut producers?

Mr. MORRIS. No, sir, it does not. And I would like to reiterate there a little bit, too, Donald Chase, which is on our board, he is a good corn producers, produces 200 bushel of corn per acre and the county yield in his county is 70 bushels per acre. So he would get no help from the farm bill that the Senate just passed.

Mr. DAVID SCOTT of Georgia. All right. Thank you, Mr. Morris, for that.

Mr. Chairman, I think that this underscores the need to produce a commodities title in this farm bill that works for all commodities in all regions of the country and I hope that we are able to do that as we move forward in the coming weeks.

And I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman. I appreciate those comments and concur with those. I now turn to your cousin, Austin Scott, also from Georgia.

Mr. AUSTIN SCOTT OF GEORGIA. Thank you, Mr. Chairman.

Mr. Morris, I would like to continue down that same train of thought. Would you speak about the machinery costs and those costs related with regard to the production of peanuts *versus* other crops?

Mr. MORRIS. Yes, sir. In Georgia, well, particularly on my farm, I am a medium-size operator. We farm around 2,500 acres of crops, row crops, and of course that is wheat, peanuts, cotton, corn. And a lot of our farming operations in my size or larger they have three sets of equipment. You have a peanut set of equipment, you have cotton equipment, and you have corn equipment or small grain and corn. And of course we grow small grains and corn. And in our case, peanut equipment we range 900 to 1,000 acres of peanuts a year and we can wind up with between half and a million dollars worth of peanut equipment. For instance, a new John Deere cotton picker is somewhere in the range of $650,000. And then of course you have to have some other equipment for each of those. But then on corn, for instance, you have a grain combine and you can have two heads. We custom cut our small grains, our soybean, our corn with one piece of equipment.

So if you are in other sections of the country where you can have either cotton equipment or just grain equipment, it makes a lot of difference. You have to have a lot less tractors. On my farming operation I have about ten tractors so when we go to gathering peanuts and cotton, it takes an extensive amount of tractors and horsepower to do the job.

Mr. AUSTIN SCOTT OF GEORGIA. Would you speak to distinguishing between irrigated and non-irrigated land with regard to growing peanuts and whether or not you believe there should be a differential in premium with regard to insurance?

Mr. MORRIS. Yes. Insurance it is very good. It helps to cover the losses I reckon you would say. But on irrigated land, you have a substantial amount more cost per acre. And on irrigated you can be looking at over $600 per acre and on dryland then you are looking at $500+ on it, but the difference being in the irrigation and irrigation cost.

And for instance, last year, our irrigated land produced over the state yield what the state yield was. And as I stated in my statement or after answering some questions we had peanuts that we didn't even harvest that had assessed at 52 pounds. And then we had several other fields that was 1,500–1,800 pounds. So you have basically not the same cost but pretty close to it and so there is a lot of difference. And with irrigated crops you have to protect against any insurance or any cost to the government or to the ag program. It is very important that we take and assess both dryland and irrigated.

And, for instance, I had some insurance this past year that I had 50 percent irrigated and 50 percent dryland on some crops and I was not notified up front that I was going to be put under one unit system. So we irrigated this crop at extensive cost per acre and then the dryland and the irrigated were lumped together. The insurance company lumped them together and so I had no claim but we had well over $100,000 worth of claim on that dryland. So we have to be careful as to how we administer the programs and how they can fit into agriculture and we keep good sustainable agriculture and produce the fiber and food that we need for this country.

Mr. AUSTIN SCOTT OF GEORGIA. Thank you, Mr. Morris. I want to ask one quick question if I can with regard to corn because I know you said that you grow corn. And the National Corn Growers seem to advocate for the Senate proposal, yet from what I am hearing from southeastern producers, the Senate proposal didn't do any good for us. Can you——

Mr. MORRIS. For us in Georgia it would be no cost to the program at all. It would not give any safety net so far as corn farmers are concerned because of the fact that the county yields are way too low. We cannot afford to grow dryland corn in Georgia, no way, because the cost is too great and your fixed cost is going to be $500 an acre to grow corn or a little over according to the price of fertilizer and some of the input cost. But for instance, seed is right at $100 an acre just for the seed cost and our fertilizer is $250, $300. So no, sir, it would not work for us.

Mr. AUSTIN SCOTT OF GEORGIA. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. I thank the gentleman.

We now go to Mr. Huelskamp, from Kansas, for 5 minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I appreciate the opportunity to ask a few questions.

I thought I might start with Mr. Younggren, with a pretty broad question. Do you believe the provisions of the Senate Agriculture Committee product is equitable for your wheat growers?

Mr. YOUNGGREN. It is no secret that wheat loses a lot in the baseline. Again, what we are looking at is how it affects the individual farmer, and there are some improvements that we would like to make to try and draw some more money back into wheat.

Mr. HUELSKAMP. Okay. A follow-up question, then, the same question for Mr. Stewart. And actually kind of a similar crop in terms of some of the options that are particularly limited in my area to these two crops, so Mr. Stewart, your thoughts?

Mr. STEWART. Yes, and I will have to tell the Committee that actually I can stand on one of my farms and throw a rock into Mr. Huelskamp's district, so I feel——

Mr. HUELSKAMP. Pretty good affinity to him.

Mr. STEWART. But yes, in my instance of wheat and grain sorghum, the Senate bill is just not a good fit. We just definitely need choices.

Mr. HUELSKAMP. Okay. And then, Mr. Stewart, a follow-up on another issue and I appreciate those responses. You make some reference in your testimony to biofuels particularly in Kansas, the fuel of choice for ethanol plants is grain sorghum. Can you explain a little further for the rest of the Committee the issue of drought tolerance and use of your crop *versus* the other options and what that means for our water tables——

Mr. STEWART. Sure.

Mr. HUELSKAMP.—in your area of the Great Plains.

Mr. STEWART. Yes, yes. Sorghum is coined as the water sipping crop of the Midwest and it is a very water efficient crop and very nutrient efficient. Forty-two percent of our crop this year, I believe, is used in biofuels. That is our grain crop. We see a great potential for sweet sorghum and biomass sorghum also in the future. We have ethanol plants in Mr. Huelskamp's district that are pretty much devoted to sorghum and has really helped our sorghum price. But yes, sorghum will be a crop of the future as our water laws and our water tables continue to drop. It just makes sense. And there has been some talk in some conservation language that might help encourage some planting of sorghum to take care of some of these water deficiencies. I know in your district you have some pretty stringent state laws dealing with water use we need to be aware of.

Mr. HUELSKAMP. Yes, and I appreciate that. Certainly, those comments are recognizing if we can encourage some folks to use a crop that is less water-intensive, 10 years from now we will have some water left for long-term use.

So I yield back the balance of my time, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Arkansas, Mr. Crawford, for 5 minutes.

Mr. CRAWFORD. Thank you, Mr. Chairman. I appreciate your indulgence. As I mentioned to you earlier, we actually suffered a loss in the ag community last week that I think is noteworthy and actually prepared comments to deliver on the Floor. But, under the circumstances, I think this individual would appreciate those comments being delivered here because in fact he has probably spent as much time in this Committee room as many of us on this Committee.

So with that, Mr. Chairman, today we honor the memory of Stewart Doan. Stewart was a familiar face on Capitol Hill and a respected agriculture journalist around the country. With his unexpected passing last week, Stewart leaves a legacy of responsible reporting and genuine friendship. He loved covering farm policy and it showed in his excellent broadcasts and articles. For more than 30 years, Stewart covered agricultural news for a variety of media beginning with radio. He was considered the premier cotton and rice journalist in the nation but expanded his horizons to master the difficult policy questions that USDA and Congress grapple with daily. He was in Washington regularly to interview policymakers and develop his wide range of contacts.

Stewart was President of the National Association of Farm Broadcasting in 1998 and continued his involvement by serving on committees and as a stringer for the NAFB News Service. NAFB named him as 2006 National Farm Broadcaster of the Year. He has been recognized by the National Cotton Council, the USA Rice Federation, and the Arkansas Farm Bureau for his reporting on a wide range of agricultural policies.

My prayers go out to Stewart's wife Leslie and his daughters Lauren and Sarah. God bless them and God bless the well lived life of Stewart Doan. I am proud to have called him a friend and colleague.

With that I have a quick question for Mr. Wellman. How well do you think the ARC Program would work for irrigated southern production as compared to that Midwestern model?

Mr. WELLMAN. I would think it would be comparable if you are basing it on the revenue from the last 5 years, and if there is a loss in the current year, then there is a payment depending upon your range of loss. According to ARC, at least an 11 percent loss there would be partial payments on the next ten percent. So I believe it would be comparable between those two regions.

Mr. CRAWFORD. Okay. You said planting flexibility is the highest priority for American Soybean Association reforming Title I programs. You then go on to explain why you think paying a shallow loss revenue program on planted acres would not influence plantings. Based on the testimony we heard yesterday, it seems as though many would disagree with you. Your thoughts on that?

Mr. WELLMAN. Well, yes, there is disagreement. There is disagreement on how much a fixed price program would distort and change plantings, and evidently, there is disagreement on how much the revenue program would. If you have a program that is based on actual revenue and only pays when there is a loss, there is really no influence to plant more of a crop that you are losing money in. So you would have the ability to switch to another crop that looks more attractive from the marketplace. And if you have a fixed price, just because the price drops down and you go to your bank and the banker knows you are going to be guaranteed a certain payment because of a government program, that may influence your decision on what you are going to plant. And with revenue program you wouldn't have that type of input. You are going to look for options that do generate more revenue.

Mr. CRAWFORD. Okay, thank you.

Mr. Stewart, real quick, with regard to the current Counter-Cyclical and Marketing Loan Program, you commented that target prices and loan rates are set too low in relation to current prices to provide adequate protection. Where are target prices and loan rates in relation to where your costs of production are today?

Mr. STEWART. Well, our estimated cost of production on sorghum now is right around $420 per bushel. Is that what you are looking for?

Mr. CRAWFORD. Sure.

Mr. STEWART. I think that would provide an adequate basis. And of course that is always a moving thing and we can't ever nail it each year exactly where it needs to be, but that would be a good place to start.

Mr. CRAWFORD. All right. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Iowa for 5 minutes, Mr. King.

Mr. KING. Thank you, Mr. Chairman, and I thank the witnesses. I appreciate the input here and I would start with Mr. Wellman and follow up a little bit on what I heard from Chairman Lucas on that discussion with regard to if the ARC Program isn't adequate for some of these producers, and the question of whether you would be open to the discussion of allowing an option for them, target prices, for example. And Mr. Wellman, would you have some recommendations to this Committee on where those resources might come from if we needed to provide more resources to take care of those concerns that were voiced by the Chairman?

Mr. WELLMAN. Let me first say that the American Soybean Association, we all want a farm program that works for agriculture. I mean agriculture as a whole is very important. Obviously, I am here representing the American Soybean Association and soybean growers, but all of us need a farm bill and we need it done when this bill expires. So we understand the challenge that is at hand here for all of us in this room. And fiscally, where the funds are going to come from I don't have recommendations right now. There have been cuts from the Direct Payment Program, the current Counter-Cyclical Program, the funds from ACRE Program, and if we look at the conservation title, the American Soybean Association supports a reduction in the cap of the CRP, which would create some cost savings there. A consolidation of conservation programs and a focus on conservation for working lands——

Mr. KING. That sounds like the Senate bill, Mr. Wellman.

Mr. WELLMAN. That does sound like the Senate bill, yes, sir, but those are proposals that were also developed by the growers and the delegates of the American Soybean Association.

Mr. KING. And we are not in disagreement I point out. I am just curious if there is a recommendation on how we might go about finding these resources.

But first, I would like to turn to Mr. Johnson and ask if you have an opinion on whether there should be a conservation compliance in a House farm bill.

Mr. JOHNSON. Yes, we do have policy on this. It was, as you might imagine, not unanimously supported in our organization, but at the end of the day, our delegates do support conservation compliance tied to crop insurance. The rationale is principally that crop insurance is becoming a larger and larger part of the safety net. There is a larger and larger taxpayer contribution to crop insurance as the years go on. I mean it is no secret. You go back 10 years, of course, not many people were carrying crop insurance; we didn't spent as much money on it either as taxpayers. We spend a lot more now. And there is a feeling among our membership that there is a *quid pro quo* that is owed back to the taxpaying public. We receive these subsidies, we are grateful for them, we carry crop insurance; we also have a very strong conservation ethic.

Mr. KING. I think that we would agree that if the Federal Government is going to put guaranteed resources in place, there is going to be an ask on the other side of that. But in the dialogue among your organization was there discussion about tying that to the ARC Program as I am going to guess maybe Mr. Wellman and I may agree on that but would your organization?

Mr. JOHNSON. Tying conservation compliance to the ARC Program?

Mr. KING. Yes.

Mr. JOHNSON. Yes, of course we would support that.

Mr. KING. Would that be preferable to crop insurance?

Mr. JOHNSON. Would it be preferable? We would support them both.

Mr. KING. Either one? I would just like to go down the panel and ask the panel left to right starting with Mr. Younggren as our clock starts to wind down here. If you had to choose, if compliance with conservation were a principle that we were holding together in this House—I don't want to exactly presume that will be the case; I expect it will be—would you prefer it be part of crop insurance or an ARC Program?

Mr. YOUNGGREN. The Title I program.

Mr. KING. And Mr. Morris?

Mr. MORRIS. Yes, we would support that, but on the other hand, we have been having in Georgia—comply a lot with conservation in our farming programs already, so yes, sir.

Mr. KING. And you are suggesting with that, then, that perhaps we don't need to tie it, that there is a good enough soil stewardship tradition, that it might not be necessary?

Mr. MORRIS. I wouldn't think so.

Mr. KING. And I will go to Mr. Stewart.

Mr. STEWART. Yes, thank you. You know, I am a fourth-generation farmer. I have a 7 year old grandson. I am going to be in conservation. I don't have to be paid to and I don't have to be forced to. This is something that is already in Title I and in our FSA programs. I see no need of taking it into crop insurance. I just really don't.

Mr. KING. And just allow the time to finish with Mr. Wellman and Mr. Thompson quickly, please, as our time has run out.

Mr. WELLMAN. Sure. We support compliance tied to Title I programs. We have a 98 percent rate now of complying to conservation programs that are tied to Title I and we believe that will continue in the future.

Mr. KING. Thank you.

Mr. Thompson?

Mr. THOMPSON. Yes, we would support it in compliance with Title I. I would have the question of oversight, how are we going to get that accomplished and the funding to do that?

Mr. KING. Thank you very much, I appreciate it.

Mr. Chairman, I yield back.

The CHAIRMAN. All right. I am sorry, Randy Hultgren for 5 minutes.

Mr. HULTGREN. I don't think I have any questions for this panel. I will wait for the next one. Thank you.

The CHAIRMAN. All right, the gentleman yields.

Mrs. Roby for 5 minutes.

Mrs. ROBY. Thank you very much. And I am happy to report as I have looked over all my questions throughout this hearing, most of them have been answered. And I know we have spent so much time talking specifics of crop insurance so I just want to touch on a few extra things.

And Mr. Morris, I will start with you and if anybody else on the panel wants to jump in. But there is accepted practices in farming like bushwhacking with cotton that is used to save the crop, but under the crop insurance programs, these actions result in some cases in nullifying the contract. So how can we make changes to the programs to allow for some of these practices? Yes, sir, Mr. Morris, or I mean anybody can jump in but if you want to start——

Mr. MORRIS. Well, as I think you are probably aware of that peanuts have a new program that hopefully will be implemented in 2013 as far as crop insurance is concerned to maybe provide a safety net for the peanut farmers. So we are hoping that that will help. And then there needs to be some vehicle that the price of peanuts does not fall, the contract prices such as they have been in the past. There needs to be a level of safety that would make the farmer hold or at least he would recover his cost of production for the year. So there are some ways and things that we need to do to help to improve insurance for the peanut farmer.

Mrs. ROBY. Well, you mentioned earlier that you are a diversified farm. Do you grow cotton as well?

Mr. MORRIS. That is correct. That is correct.

Mrs. ROBY. And so how do you feel about these practices that could nullify your insurance program if you are trying to save your crop?

Mr. MORRIS. Well, for instance, cotton this year we have the revenue coverage at 95¢ but cotton yesterday closed at 74¢. So if the price selection is next year lower or were to go down, it could get below the cost of production. We realize that we need to set a level that would guarantee cost of production in the same way with peanuts. But we feel that you all are going to help us as commodities to establish a program that will work as far as peanut producers, cotton farmers, or corn, whatever the case might be. And I appreciate your effort so far as looking into this.

Mrs. ROBY. Well, and certainly that is the challenge before us. And as the Chairman mentioned, this one-size-fits-all approach is clearly not necessarily a good thing. We have to look at how this affects different regions of the country and certainly different commodities as well.

This is for anybody who wants to jump in, but final planting date for various row crops should be—all of these thoughts come from my farmers back in Alabama but they can be applied throughout the country—the final planting dates for various row crops should be extended. The current dates do not reflect the technological advances in some crops in their ability to perform well when planted later than current final planting dates. Should the planting dates be extended for some row crops?

Mr. MORRIS. I would like to make a comment on that. We went and asked RMA to help us with the crop planting dates because of the recommendations from extension. And they helped us with those recommendations by 5 days so we very much appreciate that.

One of the problems that I have, for instance, we double crop wheat and cotton and cotton, if we have a prior crop of wheat there, then they lower our coverage on our cotton per acre. It is kind of forced a lot of the wheat farms in Georgia not turning their wheat acreage in from the standpoint—or either have wheat insurance because it is going to lower their insurance rates on cotton then. There are some things that could be addressed in different situations such as that. But in the peanut sector we did get some changes made and we very much appreciated that.

Mrs. ROBY. Anybody else want to add? Mr. Stewart?

Mr. STEWART. Well, in the sorghum industry this is an issue that we have dealt with at numerous times and numerous occasions with RMA because we do have a lot of planting date issues on sorghum and even on sunflowers. And they have been somewhat cooperative. We have gotten some counties in Oklahoma now that are recognized as double-crop counties and then we are getting some earlier planting date data due to cold tolerance. We feel like we can help Oklahoma's sorghum crop with earlier planting dates and we are giving that information to RMA.

And another thing, RMA—I mentioned the sunflowers—sunflowers are uninsurable in my county basically because the ending plant date is June 15. If we plant them June 15, we end up spraying multiple times for insects. And really the top time to plant sunflowers in my area is July 10 to the 15.

Mrs. ROBY. My time has expired. Thank you all very much and I have other questions that I will submit for the record.

The CHAIRMAN. The gentleman recognizes the Chairman of the full Committee.

Mr. LUCAS. Thank you, Mr. Chairman. Just an observation to my colleagues, when we talk about tying conservation compliance to crop insurance, remember that crop insurance is a product farmers and ranchers are paying for. So you are going to ask them to pay for the product with all of these extra requirements tied to it.

Second point worth noting, what is the one comment we get in our town meetings wherever we do them across this great country? Farmers and ranchers are very sensitive about the regulations, the rules, the requirements, the things that we place upon them. So we need to be very thoughtful when we consider incorporating more government oversight into their process as they try to produce the food and fiber. Just a thought.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman.

I want to thank the panel. They did a terrific job this morning, very succinct on your opening statements. Certainly, I want to recognize that for the record. Thank you very much.

While we transition to the second panel, I would ask unanimous consent to include in the record of today a joint statement from Congressman Joe Pitts, Pennsylvania; and Congressman Danny Davis of Illinois, in the record of today's hearings.

[The information referred to is located on p. 2306.]

The CHAIRMAN. I would like to welcome our fourth panel of witnesses while folks are kind of transitioning around. We have Ms. Ruth Gerdes who is President of The Auburn Agency Crop Insurance, Inc., Auburn, Nebraska, on behalf of the Crop Insurance Professionals Association. We have Mr. Brian M. McSherry, President, McSherry Agency, Inc., Flanagan, Illinois, on behalf of the Independent Insurance Agents and Brokers of America. And Mr. Tim Weber, President, Crop Insurance Division, Great American Insurance Company, Cincinnati, Ohio, on behalf of all approved insurance providers.

All right, with that, Ms. Gerdes, your opening statement for 5 minutes.

STATEMENT OF RUTH GERDES, PRESIDENT, THE AUBURN AGENCY CROP INSURANCE, INC.; CHAIR, REGULATORY AFFAIRS COMMITTEE, CROP INSURANCE PROFESSIONALS ASSOCIATION, AUBURN, NE

Ms. GERDES. Mr. Chairman, Ranking Member Boswell, Members of the Committee, thank you for inviting me to testify today. My name is Ruth Gerdes and I am a crop insurance agent from Auburn, Nebraska. I am here testifying on behalf of the Crop Insurance Professionals Association. CIPA is an agent organization with members from all over the U.S.

My husband Myron and I farm. I became a crop insurance agent because in 1983 and 1984 we had back-to-back massive droughts on our farm. Guess what? We had the wrong crop insurance policy. I was at home with newborn twins, and as a result of the droughts, I needed to find a job to help pay the bills so we could keep our family farm. I became an agent to help pay the bills but I also vowed that what happened on our farm would never happen to us again, nor would it happen to my farmers and neighbors. I firmly believe that that is the attitude which has built Federal crop insurance into what it is today, the single policy that nearly every farmer, every farm group, and every lawmaker involved in farm policy says is now the cornerstone of U.S. farm policy. It must not be cut or harmed in this farm bill.

It was not always this way. From 1938 to 1980, crop insurance barely limped along serviced and sold by government employees. It was its own disaster. In 1980, Congress did something that would change crop insurance for the better. It turned crop insurance over to the private sector to companies and agents to sell and service the policy and help shoulder some of the risk. In 1994, Congress improved crop insurance by, among other things, recognizing a farmer's own production history or what we call APH today.

Nineteen-ninety-six marked the year that revolutionized crop insurance as we know it. Rick Gibson and Art Barnaby from Kansas State University teamed up in developing the very first revenue products. Last, in 2000, a bill was passed which accelerated crop insurance to its current success.

Today, crop insurance stands as a model farm policy. It is WTO-compliant. Crop insurance allows the farmer to buy the policy most relevant to their operation. It requires farmers to pay substantial premiums for the coverage they buy. Through agents and companies, crop insurance provides timely relief. Producers are paid an indemnity within a few weeks rather than 2 or 3 years later like *ad hoc* disaster or permanent government programs do.

Crop insurance is unencumbered with arbitrary rules that have not and should not have anything to do with crop insurance, rules such as payment limitations, AGI limits, or compliance with conservation. Crop insurance is about farmers and farmers who may have lost everything in a flood just as happened in 2011 to many, many of my producers. Crop insurance is not about social engineering in Washington. Crop insurance is cost-effective and efficient. Last year alone, we insured $114 billion in liability. We have paid nearly $11 billion in indemnity in 2011 and a taxpayer cost of $6.62 billion without one call for *ad hoc* disaster.

I think it is important to remember why we have crop insurance. We have crop insurance because without it, farm families who borrow money each year to produce a crop would have to do so without multi-peril crop insurance. Without crop insurance, many producers could not get credit, especially small and beginning farmers. And without credit, producers cannot farm.

There are critics of crop insurance that will tell you take it away from the private sector and turn it all over to the government, in other words, repeat history and the mistake of the 42 year government-run program. These are the same people who would like to tie payment limits, AGI tests, and conservation to crop insurance.

They want a government-run program in order to first control it, then limit its usefulness, and then finally to kill it after its value has been so diminished that nobody cares.

There are many hired-gun academics who actually argue that farmers are not getting a dollar-for-dollar return on taxpayer investment in crop insurance so it must not be efficient. But who on earth expects, who on earth wants a dollar-for-dollar return on their insurance investment? I buy my home, auto, and certainly my life insurance hoping never to collect but only to protect.

So what can you do to preserve, protect, and improve crop insurance? To start, I applaud the House and Senate Agriculture Committee's agreement last fall that there should be no cuts to crop insurance. I encourage this Committee to help ensure that crop insurance provides good coverage for all producers of all crops in all regions.

Finally, I want to briefly touch on two other issues. First, I hope the Committee will expand your important work in the area of regulatory reform to crop insurance in a few ways. Requiring FSA to share information with agents and companies that helps us ensure that a farmer's policy is accurate, by allowing producers to correct unintentional errors, and by requiring the Risk Management Agency to involve its eyes and ears on the ground, their agents.

Second, and importantly, there are some aspects of the Standard Reinsurance Agreements signed in 2010 that are especially inequitable to crop insurance agents. Frankly, what was done in the SRA was illegal and a bureaucratic overreach of major proportions. I urge the Committee to address the compensation issue for agents.

Each of us are reminded at points in our life that we don't know what we have until we have lost it. Farmers can't afford to lose crop insurance and neither can the U.S. economy. After more than $12 billion in cuts made to crop insurance over the past 4 years, that is enough. We need to stop and start rebuilding and moving forward on the success that crop insurance has given us.

Thank you.

[The prepared statement of Ms. Gerdes follows:]

PREPARED STATEMENT OF RUTH GERDES, PRESIDENT, THE AUBURN AGENCY CROP INSURANCE, INC.; CHAIR, REGULATORY AFFAIRS COMMITTEE, CROP INSURANCE PROFESSIONALS ASSOCIATION, AUBURN, NE

Introduction

Chairman Conaway, Ranking Member Boswell, and Members of the Committee, thank you for holding this hearing concerning risk management and commodities in the 2012 Farm Bill. I am humbled, and grateful for the opportunity to present this testimony as a crop insurance agent—one of the 16,799 crop insurance agents who serviced a policy in 2011—and on behalf of the farmers we serve.

I am Ruth Gerdes. And while I have been fortunate to gain the fancy title of President of The Auburn Agency Crop Insurance, Inc., I am really just a farm and ranch girl from Nebraska who loves to take care of business. Some 28 years ago, after nearly losing the land my husband and I were farming, I decided I wanted to help other farmers avoid the situation we had found ourselves in after a string of bad weather along with tough markets. I got into crop insurance, believing it could be a powerful tool for farmers. It is still that same belief and passion that drives me to work each day, and I am proud to say it remains challenging and fulfilling work as the risks farmers face, and that we as agents are charged to help them with, are only growing and becoming more complex.

In addition to working for my farmer clients, I have served on a number of industry task forces and working groups through the years, both with grower associations like the National Corn Growers Association and in the crop insurance industry. In the late 1990's, I was fortunate to serve on what were two seminal committees: (1) a USDA Risk Management Agency (RMA) Task Force on Actual Production History (APH); and (2) an Advisory Committee for Senator Bob Kerrey that was instrumental in the development of the Agricultural Risk Protection Act of 2000 (ARPA).

I currently serve as Chair of the Regulatory Affairs Committee of the Crop Insurance Professionals Association (CIPA), a band of excellent and long-serving agents from across the nation founded by two gentlemen—Mr. Bill Hanson of Manhattan, Kansas and, a constituent of Chairman Lucas's, Mr. Max Claybaker of Blackwell, Oklahoma—for the purpose of strengthening Federal Crop Insurance to better serve the needs of U.S. producers.

I volunteer and serve in these capacities because I care about the farmers I serve, and believe in the product I sell. From just a handful of farmer clients in 1984, Auburn Agency has grown to serve more than 1800 farmers in eight states, with an average buy-up coverage level exceeding 80% (I am told this is one of the highest levels of average buy-up in the nation). I strongly believe the role farmers play in our society is a noble one. I understand that Federal Crop Insurance is about the farmer first, and I am honored to have been able to play a role in helping farmers learn how to use it to its maximum value. I hope my testimony today will provide some useful insight to guide as the Committee embarks upon its own noble task of directing our nation's farm policy for the future.

Crop Insurance Enjoys Great Support for a Reason

In one sense, I have an easy job today as, based on the statements I have read anyway, Federal Crop Insurance enjoys very strong support in this room. Most producer groups have said that preserving crop insurance is their first priority, as have several Members of this Committee. I want to say thank you for this leadership and support. It is gratifying, but it is also consistent with what I hear from my farmers. Crop insurance has become that powerful tool that I thought it could be when I entered the business, and that Congress wanted it to be when you set it on a new path in the early 1980's. There is still much more that can be done, but its fundamental popularity arises from the following facts:

1. It is real and **bankable protection** that is **tailored** by the farmer with their agent to the specific needs of the producer's operation. No other farm program is like this.

2. It is **well managed**—producers sign a business contract, and when disaster strikes an adjuster will be present and **claims are paid timely.** The competitive aspect of delivery ensures excellence.

3. It is **defendable** in that **farmers pay significant premiums**—have skin in the game—for this coverage.

4. As a voluntary business decision, crop insurance comes **unencumbered with regulatory dictates.**

But even though Crop Insurance enjoys this great popularity and is in fact working as planned and actually under budget right now, we realize this Committee is charged with some difficult issues in crafting the next farm bill, and therefore want to confront these issues with our key principles and values in the pages that follow.

Reflections on Growth of Crop Insurance Industry

The growth of Federal Crop Insurance is an outstanding success story. From the time the modern public-private partnership was forged in 1980, the program has grown from an insignificant nuisance among farm programs covering less than 12% of the nation's cropland and generally attracting not the best of farmers; to a robust program covering 83% of all cropland acres and providing bankable protection to America's best, most dynamic and most productive farm families.

In 2011, companies and agents sold policies costing a record $4.5 billion in producer paid premium on 265.4 million acres covering a record $114 billion in production. This is especially astounding when you consider that just 10 years ago in 2001 (the first year of ARPA), producers spent just $1.2 billion on premium on 211.3 million acres covering just $37 billion in production.

We should not just gloss over this growth or these statistics as if it was just happenstance, or being in the right place at the right time. The fact is it has been the product of very substantial and very deliberative work by many—you and your predecessors around this dais, and many CEO's and staff and adjuster and agents and farm leaders in the field—and so I think it's worth taking some time to think about what has truly been the force behind this growth. We would list four key factors:

1. **Good lawmaking**—I want to pay homage to this Committee and those lawmakers who came before you who crafted: the 1980 Federal Crop Insurance Act,

which began the movement of the delivery of Crop Insurance to the private sector; the 1994 Act which cast the vision that Federal Crop Insurance might one day eliminate the need for costly *ad hoc* disaster programs; and especially the 2000 ARPA which set the course and trajectory for what Federal Crop Insurance has become today.

As Members of this Committee, I would hope you look at Federal Crop Insurance with a great deal of pride in ownership. You have created a program to address a very real need—farmers as a fundamental element of society do indeed face greater risks (contending with weather and markets risks beyond their control) than any other business, and need access to affordable risk management tools. And, you established a successful public-private partnership that has uniquely met that need in a reliable and comprehensive and defendable way.

2. **Motivated participants**—The private sector leaders who jumped into this program from the beginning believed in the need first, but saw sufficient potential reward to risk their capital to make it work. Still today, the 15 companies (AIP's) that remain are dynamic and competitive, and therefore constantly searching for ways to bring better value to the farmer customers as they compete for more business and greater market share.

The value of this framework may be hard to quantify exactly, but we can see from the numbers that crop insurance began a very different path in terms of both the quality and quantity of coverage beginning in the early 1980's. We also see evidence of this in innovation. Crop Revenue Coverage or CRC was created in the late 1990's and absolutely revolutionized risk management for producers of most major commodity crops by providing risk protect against both yield losses and price losses within the growing season.

3. **Quality products at affordable prices**—Good insurance policies that provide relevant protection tailored to the producer's needs and history at a reasonable value are key. As yields and prices for commodities have climbed, the business of farming has not gotten easier so much as it has become higher stakes. For this reason, the premium assistance provided to the farmer is absolutely critical. Even the conservative American Enterprise Institute (AEI) has published papers stating the crop insurance simply would not be viable without Federal backing and cost-share. Any efforts to reduce premium assistance should be rejected outright.

The Actual Production History (APH) system for determining a farmer's insurable yield, based on the producer's real history, is also key. The APH rewards good behavior, and discourages bad behavior, and thus pushes the farmers to be the best they can be.

4. **Dedicated agent force**—While I might like to think my Agency is unique, the reality is that we are pretty typical. We all strive to provide a quality service. We all work to know the products and markets and are willing to be called upon at all hours when disaster strikes. Why is this? Well the first and most obvious answer is, we do it because we take pride in our work and want our customers to be happy with our products and our service. And, yes, a part of that is because we want the producer's business again the next year.

In the past, the best agents could not only win business, but they could be rewarded for exceptional work by the Companies with compensation. This competitive business model is good for the farmer and good for the system, but it has been dramatically undermined by the recent Standard Reinsurance Agreement (SRA) which, in addition to capping A&O reimbursements to companies, took the unprecedented and noxious step of capping and standardizing agent commissions from the companies. I should note here that this egregious overreach by the RMA was done administratively, with no clear legal authority or direction from Congress.

While one might add to this list of reasons for the success of crop insurance, the result is the same: crop insurance is undeniably a growing and positive force in the agricultural economy. I noted earlier the fact that acres insured, value insured and the amount farmers are investing in crop insurance continues to grow and set new records. For a state like Nebraska, that has big implications for the economy.

Stories Behind the Numbers

At the end of this testimony, I have attached a simple fact sheet for my state Nebraska. These are available for many more farm states at *www.cipatoday.com.* What I want to point out in these is that there are faces, jobs, economic activity and stories behind each of the numbers. In Nebraska in 2011:

—**2,275** is the number of licensed agents—small business owners like me providing farmers guidance and advice. Each agent is supported by company underwriters, adjusters, claims staff and computer programmers, and most employ office support staff. Collectively, these jobs, which are all supported by A&O and AIP resources, represent a significant number of good jobs in rural communities mine.

—**15.587 million acres** of crop and pasture covered represents the livelihood of thousands of farm families in my state.

—**$8.631 billion in liability** covered represents expected income for these farm families should weather and markets cooperate. Covering this risk through Crop Insurance allows farmers to use their capital elsewhere—better machinery; better seed; technology; irrigation; conservation practices; *etc.* The economic impact of offsetting this amount of risk in this way is tremendous.

—**$309 million in premiums** is what farmers were willing to pay for this coverage in 2011 (roughly $20/acre). While this is a lot, it has also helped a lot of farmers and their wives sleep better at night and make more productive uses of their days.

—**$254 million in claims paid** to date represents assistance directed to those with covered losses—these are farm incomes saved, catastrophes avoided, and localized farm economies kept afloat.

Business Perspective *vs.* D.C. Perspective and the problem of CBO

While in business growth is a good thing, in D.C. it is not all positive. It often invites unfair scrutiny. In fact, spending on agricultural policies including Crop Insurance is way down. In the most recent 5 years, average funding for U.S. farm policy, including crop insurance, was $12.9 billion per year, which is 28% less than the previous 5 year average of $17.9 billion and 31% less than the average of $18.8 billion that incurred in the preceding 5 years.

But opponents of agriculture have never let facts stand in their way. With higher commodity prices boosting the baseline for Crop Insurance, they have set their sights upon this vital risk management tool, never mind the fact that crop insurance was cut by more than $6.4 billion in the 2008 Farm Bill, and by another at least $8 billion administratively in the 2010 SRA.

Perhaps what is most disheartening from this standpoint is the fact that the Congressional Budget Office seems to persistently overestimate the cost of crop insurance to the taxpayers, putting a bull's eye on our back. The following table compares the CBO estimates for crop year expenditures (for 2006, from the August 2006 baseline, *etc.*) to the actual crop year spending that is tallied after all is settled (the March baseline of the following year).

Year	2006	2007	2008	2009	2010	*2011*
CBO estimate **CBO actual**	*$3.864* **$3.291**	*$4.670* **$4.374**	*$7.746* **$4.146**	*$7.496* **$6.767**	*$7.784* **$4.547**	*$9.213* **$6.620**
% difference	−14.8%	−6.34%	−46.5%	−9.73%	−41.5%	−28.15%

The point of this is simply to show that CBO (like its sister agency, OMB) does the Federal Crop Insurance system no favors. Right now, as of the March baseline, they are showing budget authority for the 2012 crop year at $9.465 billion and average spending over the next 10 years at another $9B per year (a total of $90 billion). But if past is prologue, the actual spending will be lower, and could be much lower.

Why is this? Using 2011 as an example, even though companies have paid out more than $10.75 billion in claims (a record), the program is still at a loss ratio (indemnities/total premium) below 1.0 and therefore an underwriting gain will be made, thus lowering the cost from the $9.213 billion estimate. Beyond this year, no one really knows, but CBO assumes high prices are here to stay. In reality, if prices were retreat again, what is currently a $90 billion baseline could easily shrink by $20 to $30 billion in a wink.

To conclude this section, let me just state that from my perspective, and I think the perspective of all of rural America, growth in the Federal Crop Insurance program is in fact a good thing. It was always the hope of your predecessors to establish a system that would be so comprehensive and robust in its coverage that it would eliminate the need for *ad hoc* disaster assistance. Well considering that we just came off a year in 2011 that contained the worst heat and drought in the history of the Southwest United States, and epic flooding along the fertile plains of the Missouri River, and not a single call was heard for additional disaster assistance, I would say this Committee has achieved a grand success in Crop Insurance.

Reflections on Value of Crop Insurance to the Producers it Serves

While we have covered at length the value of crop insurance generally, I have not touched on its most important quality from my perspective, and that is what it does for the individual farmers who use it well.

I am fortunate to be from an area with really incredible generational farmers who love the land and care for it well and raise crops with amazing consistency and productivity. From this perspective, I can attest to the fact that the value of crop insurance is far more than what they receive in indemnities over time. Many of my farmers have never made a claim on crop insurance, and hope they never will. And, yet, they assign it an indispensable value, particularly in the revenue products. Why is this?

First, Crop Insurance has become a **powerful tool for farmers in marketing their crops and managing input costs.** I have farmers who price their corn and beans 2 and 3 years in advance, knowing they will have crop insurance to back them up. This allows farmers to lock in prices on their commodity when they are best rather than when they have to. It also allows them to purchase inputs ahead if prices are attractive. Together, when used well, the Crop Insurance products, while having a significant cost up-front, can really improve the bottom line of farmers even when they don't have a loss.

Also, by taking certain risks off the table, farmers are able to focus their capital on other needs. Many of my farmers will tell you that the bank-ability of crop insurance has allowed them to purchase better equipment, like center pivot irrigation or a bigger planter or better combine. These investments also increase efficiency and hedge risks for the farm operation. So the value of crop insurance is magnified as it allows the farmer to focus resources on other needs.

Finally, although I do live in a very good farming area, that does not mean we are immune to disaster. And this leads me to the best thing about crop insurance—it is there when you need it. Perhaps the best, most recent example of this, for my agency, came last year in the wake of the Missouri River floods. The story of one of my farmer clients was told on *The Hand That Feeds U.S.* (HTFUS). See: *http://www.thehandthatfeedsus.org/farmers__profile-Under-water-but-not-out-of-business.cfm*. Mike Woltemath from Hamburg, Iowa lost more than 80% of his farm ground last year to flooding, partly in a successful effort to save the Town of Hamburg. As the picture below indicates, there was absolutely nothing that could be done to hold back the waters.

A generation ago, this would have been an economic hit that would have destroyed farms families, or taken a lifetime to recover from. Thankfully, Mike was well insured, and has since been able to put his farm back into shape such that he is ready to plant again this year. His words for the HTFUS article are relevant to this hearing:

> "Crop insurance needs to be protected. It provides us with a very good backstop, and if you take that away you leave an already high-risk industry with no protection, making it almost impossible to withstand this kind of catastrophic event. . . . It's not unheard of to have $700 invested in 1 acre out here, much of which is borrowed from banks that would not likely approve the loan without the protection of crop insurance. No one realizes how much we invest in order to produce the food and fuel that we do. But when you don't have anything to sell, you can't invest, and when you can't invest, you can't produce—it's a downward spiral."

Mike was not alone. In fact there were many just like him. Walking though this type of disaster with farmers is difficult and even emotional. Without Crop Insurance, this would be an entire year's income lost on top of the loss of very costly assets. This is why we have crop insurance, and why it is so important that crop insurance remains a business proposition, unencumbered with arbitrary rules and regulations that are part of so many farm bill policies, so that it can provide just this type life and business-saving assistance exactly when it is needed.

To conclude, the true value of Crop Insurance has to be measured taking into account all of these factors together. Some ivory tower economists like to propound the view that the only true measure of insurance is what it pays back in relation to what the purchaser has paid in. No one in the real world views insurance that way. As agents, having walked the fields and sat at the kitchen table with the producers who are taking these huge risks, we know better.

Key Issues in the Farm Bill

Clearly, crop insurance has tremendous value both from a broad economic perspective and to the farmer. This is, no doubt, why it enjoys such broad support from producer organizations and Congress alike. But even with this support, the future of the industry seems more uncertain than ever.

It has been a difficult couple of years for crop insurance with respect to government affairs, with stinging cuts made to both companies and agents in the 2010 SRA. Based on the Administration's recent FY 2013 budget blueprint, apparently OMB believes even more should be cut. Thankfully, those around this table have answered with a firm, no. But, another big issue for crop insurance, at least from my vantage point, lies in your hands, and has everything to do with the 2012 Farm Bill—how it is structured, and how it will interact with crop insurance.

There is an irony that virtually all the farm groups indicate that crop insurance being their top priority, but in many cases they are also advocating new farm bill policies that they believe can "supplement" or "compliment" crop insurance, but in most cases will mainly duplicate, compete with, or otherwise tarnish the reputation of that top priority, Crop Insurance.

Imitation is the highest form of flattery so, in one sense, we might be gratified that farm bill policy discussions are now using the language of revenue protection or risk management. But, I would urge caution not to create a weak duplicate that might undermine the real deal.

Rather than creating a less-tailored version of crop insurance with the hope it will succeed like crop insurance, we believe Congress should look for things that crop insurance does not do well, and fill those gaps. There are a couple of examples relevant to your work here that I would reflect upon:

—**Deductible-level losses** are, in fact, a legitimate problem for producers given the high stakes in agriculture today. But we do think care must be taken in how much revenue farm policy should guarantee. We believe this problem can best be addressed through crop insurance, where farmers have skin in the game. As agents, we are excited about three possibilities within crop insurance that are being put forward, and would urge the Committee to give these careful consideration.

1. **Trend Adjusted Yields.** For 2012 (the current sales season), RMA approved a trend adjustment for corn and soybeans in certain states, with plans to expand to cotton, rice, wheat and sorghum in 2013. Having been in one of the areas, and run thousands of quotes using the Trend Adjustment, I can say with confidence that in the counties where it truly reflects the technology advances, it is a powerful tool for the producer to cover more of their expected production. However, there is a problem in that it does not work well in all counties. CIPA has long advocated applying a national trend to T-yields which would give a more consistent and reliable benefit. CIPA has also advocated for T-yield plugs or other means of holding up APHs in multi-year loss scenarios. The bottom line is that where the APH is made more truly reflective of what the farmer truly expects to produce, this goes a long way toward addressing the problems that are associated with the problem of high deductibles.
2. **Personal T-Yields (PTY).** What has been implemented as a pilot in North Dakota for the last few years seems ready for prime time. By allowing producers to set their own T based on their own experience, you further incentivize good record keeping and the best possible use of the crop insurance products. The PTY would streamline and improve the plug-yield system referenced above, and make the APH more truly reflective of what the farmer expects to produce.

3. **Supplemental Coverage Option (SCO).** Introduced by Congressman Randy Neugebauer of Texas, this concept would allow farmers to pay for and stack a supplemental area-based coverage on top of their individual coverage to address systemic county-wide losses. It is the functional equivalent of the Senate Agriculture Committee's ARC program (county-based, deductible level coverage), but it is designed to interact seamlessly with crop insurance, and is not free to the producer. He must pay for it. In that it complements Crop Insurance, works easily within the current framework, and provides a potentially valuable choice for producers, CIPA has embraced this plan.

—**Deep and long-term price declines** are a very real concern for most of the farmers I serve. Crop insurance is based on market prices in the current market, and there is no question that if price elections for corn and beans this year were $3.50/bushel and $7.00/bushel, respectively, as opposed to $5.68 and $12.55 (the price elections for 2012), my farmers and their lenders would be in serious trouble—indeed, many would not be in business. Under the Senate's ARC plan, like many others that have been offered, this is addressed by tying the price part of revenue to a 5 year rolling average. Others use minimum reference prices. Without speaking to the merits of either, let me just say that this is probably a risk that would best be addressed outside the scope of crop insurance.

Given the farm bill backdrop, rather than try to dictate what should be done or how, we would rather offer two simple requests on behalf of agents and the farmers we serve:

1. First, do no harm—be careful in crafting a farm bill policy to take aim at only those risks that are not well covered by crop insurance, structured in a way that will not duplicate what crop insurance is already doing well.
2. Second, trust that you can build upon Crop Insurance—this structure that was built by this Committee, your colleagues and predecessors has proved to be able and competitively motivated to serve the needs of farmers.

Reflections on Importance of Private Structure and Damage Caused by SRA

I want to end back where we began the section on the growth of Crop Insurance. That is complimenting this Committee on the creation of Crop Insurance and a delivery structure that has worked, and done a great thing for farmers and rural economies. I am very proud to be a part of that structure.

But it is disheartening when it seems, at every turn, that this structure is under attack. The recent SRA is good example. And the fact that OMB and Administration's budget is calling for more cuts even before the deep SRA cuts have been fully realized just adds insult to a very real injury.

Nebraska agents and staff were hurt badly by the SRA, as compensation was capped at a full 22% below 2010 amounts in gross dollars (average commission rates were cut by more than 50%). But even worse off are areas like California, where gross A&O reimbursements dropped by 32% from 2010 to 2011, meaning gross commissions for agents dropped over 45% (the effect of the 80% cap on agent commissions).

The following table illustrates one of the more extreme and unintended consequences of RMA's actions. Although it was asserted that fruit and vegetable producers would somehow be advantaged by the new SRA, actual experience has proved differently as A&O plummeted in those states.

State	Category	2008 (million)	2009 (million)	2010 (million)	2011 (million)	2011 After 80% cap	Change from 2010
California	Total A&O	$47.6	$43.3	$41.3	$28.2	$22.6	−**45.4%**
Florida	Total A&O	$29.4	$20.2	$17.5	$12.6	$10.1	−**42.4%**
Nebraska	Total A&O	$141.8	$106.6	$85.9	$83.6	$66.8	−**22.1%**

There is no doubt that OMB and GAO have a bias against crop insurance or any farm policy for that matter. But, I would like to have them along with certain academics out to walk the fields with me so that they might gain a better understanding of the true value of Crop Insurance to real people in real communities who too often in Washington are just numbers and statistics on a page. But, I know Congress and the Agriculture Committees have a better understanding of how business works. We would simply ask that you step in and say, enough is enough. You cannot make 50% cuts to the resources in offices and expect to have the same level of service.

The unprecedented and egregious overreach of regulating and bureaucratizing agent compensation should be reversed. This would be a no-cost item as it would not impact government A&O expenditures. In addition, the incredibly poor design of the cap on A&O expenditures which caused and will continue to effect disproportionate cuts to certain crops or areas of the country such as California and Florida in 2011 should be addressed. This outcome would have been avoided with a more transparent process, which should have included agents considering that agent compensation was to be regulated.

From my perspective, the substance behind calls for cuts to agents was not a credible accusation 3 years ago when gross compensation to agents was nearly twice what it was in 2011, and it is most certainly not a credible charge today. On the CIPA website at *www.cipatoday.com,* you can access a document that details the work my agency does on a month by month basis over the course of a year. This is the process we go through for each and every client, taking special care to fully educate them on their risk management options available. Some say the process has only gotten easier over time, but the following picture shows the basic rules for Crop Insurance that we have to follow at the risk of losing our agency.

A comparison of paperwork in 2000 ***versus*** *2012.*

As an agent, I consider it my duty to make the voyage through all the options and paperwork as easy, painless and efficient for the farmer as possible. But I am here to tell you the preparation for this is immense. I know that I am making judgment calls in my advice that, if wrong, could cost my producer customer his operation and livelihood.

Now NASCOE is calling on Congress to reverse course from the seminal decision it made in 1980 and hand the delivery of Crop Insurance bask to the government. On behalf of agents, let me say we truly do appreciate the FSA and hope they have a significant role in delivering a quality farm bill. But the sentiment of agent groups and the farmers we serve is summed up very well in Ranking Member Roberts' comment on this prospect, "it is a loony idea." If we want to undo Crop Insurance, this is the way to do it.

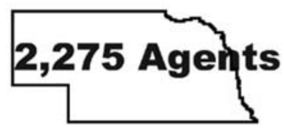
Closing

We have covered a lot of ground in this testimony. But Federal Crop Insurance is a long and detailed and great story and I hope that my passion for the risk management tools that it provides and the delivery system has come through loud and clear.

In closing, let me say on behalf of agents that we stand ready to assist you in minimizing cuts to agriculture policies overall, and building upon the excellent crop insurance framework wherever possible. I hope this testimony offers insight and evidence that will serve you well in this tremendous responsibility you have, and we wish you the very best as you proceed to the next steps.

ATTACHMENT

Nebraska

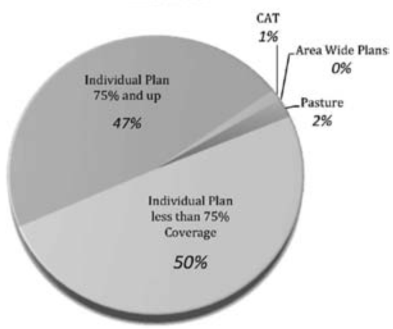


Crop Insurance

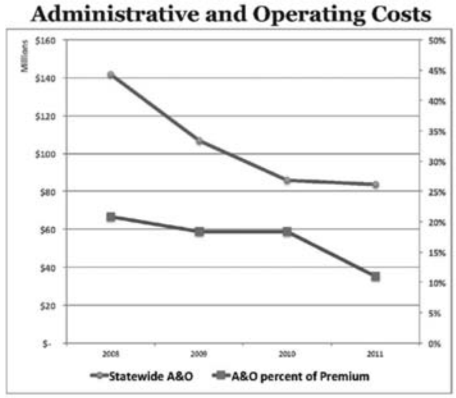
Year	Net Acres Insured	Producer Premiums	Liabilities	Indemnities	A&O Costs
2008	14.4 m	$293 m	$4.7 bn	$414 m	$142 m
2009	15.4 m	$239 m	$6.6 bn	$165 m	$107 m
2010	15.3 m	$189 m	$5.5 bn	$157 m	$86 m
2011	15.6 m	$309 m	$8.6 bn	$254 m	$84 m

Of the 19 million acres planted in Nebraska in 2011, 15.6 million or 82% were enrolled in crop insurance. Of the insured acreage, 15 million were individual buy-up coverage, with 7.3 million (47% of acres; 58% of premiums) with a buy-up level of 75% or greater. Only 202,000 (1%) were in CAT and only 30,000 (.19%) were in area plans like GRP or GRIP.

Insurance Policies by Net Acres Insured



Administrative and Operating Costs



The chart to the left highlights how the cost to the government to administer crop insurance in the state has been drastically cut since 2008, even as total liability within Nebraska has increased (from $5.5 billion in 2010 to $8.6 billion in 2011).

Crop Insurance Professionals Association CIPA

WWW.CIPATODAY.COM

The CHAIRMAN. Thanks, Ms. Gerdes.
Mr. McSherry for 5 minutes.

STATEMENT OF BRIAN M. MCSHERRY, CIC, PRESIDENT, MCSHERRY AGENCY, INC.; CHAIRMAN, CROP INSURANCE TASK FORCE, INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA, FLANAGAN, IL

Mr. MCSHERRY. Good morning, Mr. Chairman, Ranking Member Boswell, Members of the Committee. My name is Brian McSherry and I am pleased to be here today on behalf of the Big "I," the Independent Insurance Agents and Brokers of America. I am owner of the McSherry Agency located in Pontiac, Illinois. I am a member of the Big "I" Government Affairs Committee and serve as Chairman of the Big "I" Crop Insurance Task Force.

Big "I" is the nation's oldest and largest national trade association of independent insurance agents and brokers. We represent a nationwide network of more than ¼ million agents, brokers, and their employees. Our agents serve the needs of their communities not only by offering important insurance products to their neighbors but also by serving as key community leaders.

The Federal Crop Insurance Program is a powerful success story and Big "I" is proud to have been a key player in the evolution of the program as it moved from a federally administered program to a public-private partnership. Independent agents are the sole delivery mechanism of the FCIP and this important and successful relationship has resulted in the program offering better protection to farmers over the past 30 years.

Crop insurance provides essential benefits to farmers and ranchers and has proven instrumental in achieving the program's goal of helping farmers make well informed risk assessments and choices about coverages that they purchase. Crop insurance agents are experts in the FCIP, which makes them extremely skilled at assisting farmers who have questions or concerns about their coverage.

The crop program is an indispensable financing tool, and without it, many farmers would be unable to access credit that allows them to fund their businesses. Protection provided by the program gives the lender the confidence to extend that credit. Crop insurance is especially critical for young farmers who have less collateral, would be unable to obtain financing without it. Farmers wholeheartedly believe in the value and benefits provided by the FCIP and have reiterated that preserving the program should be a fundamental goal of the farm bill.

The Big "I" is committed to ensuring that independent agents continue to have the resources necessary to effectively provide this crucial safety net for America's farmers. Any FCIP reforms should focus on private sector delivery mechanisms and leverage the expertise of independent agents.

While supporting the overall goal of balancing the Federal budget, the Big "I" believes that the Federal Crop Insurance Program has already sustained a disproportionate level of cuts in the name of deficit reduction. The 2008 Farm Bill and the 2011 Standard Reinsurance Agreement have already slashed the FCIP by a total of $12 billion. In an attempt to streamline and modernize the FCIP, the Administration has already made significant reductions to subsidies for crop insurance which subsequently raise premiums for farmers. When asked, farmers have consistently stressed that ensuring a strong safety net is vital to the future of the nation's farming communities. Therefore, Congress should prioritize programs within the farm bill that have a proven track record of efficiency and effectiveness and that best serve our farmers' risk management needs, not simply shift funds away from the FCIP.

In addition, any new proposals should not impinge or overreach on the practical or successful programs already in place. The Big "I" understands the need to revisit programs over time. However, additional cuts to the FCIP will reverberate in small rural communities across the country jeopardizing the efficient and effective quality of services provided to farmers. Further cuts to the FCIP on top of the $12 billion over the next 10 years will only hinder small business growth in America's heartland.

The Big "I" has serious concerns about components of the 2011 Standard Reinsurance Agreement that have cut the FCIP by $6 billion and radically changed the reimbursement rate of administrating and operating expenses in a way that shifts dollars between states picking winners and losers. The SRA imposed an 80 percent cap on compensation a private company may pay a private agent for delivery of insurance. This, together with the 2011 A&O ceiling factor, agency revenue was reduced by over 50 percent. This unreasonable agreement represents the first time that RMA has attempted to enforce price controls and regulate agents' commissions rather than allow the marketplace to determine appropriate commission rates. The 80 percent commission cap doesn't save the government any money or affect the budget baseline for the program. The cap only serves to further compromise the Federal Crop Insurance Program and its intended beneficiaries—farmers and ranchers.

In addition, the SRA negotiations are held behind closed doors without agent participation, yet the outcome of these negotiations has a huge impact on the day-to-day business operations of every crop insurance agency. The program cuts along with the commission cap have created great uncertainty with respect to the future of the program and have begun to have a destabilizing effect on rural jobs. The Big "I" feels strongly that the 80 percent commission cap should be removed.

In conclusion, we greatly appreciate the opportunity to present our testimony at this hearing and we are more than happy to provide further details on any of the issues I have discussed. Big "I" understands the challenges the Committee faces in crafting a new farm bill, but we also believe that this is a vital program that has proven its strength and effectiveness and will serve as a springboard to even more prosperous future of agricultural development.

Thank you.

[The prepared statement of Mr. McSherry follows:]

PREPARED STATEMENT OF BRIAN M. MCSHERRY, CIC, PRESIDENT, MCSHERRY AGENCY, INC.; CHAIRMAN, CROP INSURANCE TASK FORCE; INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA, FLANAGAN, IL

The Big "I" is the nation's oldest and largest national trade association of independent insurance agents and brokers, and we represent a nationwide network of more than ¼ million agents, brokers and employees. Independent agents offer all lines of insurance—property, casualty, life, health, employee benefit plans, retirement products, and crop insurance. Our agents serve the needs of their communities not only by offering important insurance products to their neighbors, but also by serving as key community leaders—we have agents who serve as volunteer firefighters, youth leaders, school board and city council members.

The typical agency employs not only the writing agent, but also licensed support-staff who help in servicing the products. They have considerable overhead—computers with high-speed Internet connections, office space leases, advertising costs, auto expenses, payroll, their own insurance (liability, workers' compensation, health), taxes, and other expenses that are drawn directly from the agent's commissions collected from selling insurance products.

Specifically regarding crop insurance, today an agent does more work per crop policy than ever before. Agents do all the data entry, and they keep the yield records per unit—not per policy. The reality is that agents require an extraordinary amount of expertise in servicing this insurance product per acre. In 2011 farmers held 1.15 million polices and crop insurance agents are proud to be partners in the successful operation of this invaluable program for farmers. We appreciate the opportunity to provide our perspective today on the important role independent agents play in the sale and delivery of the Federal Crop Insurance Program (FCIP).

2012 Farm Bill

While supporting the overall goal of balancing the Federal budget, the Big "I" believes that the crop insurance program has already sustained a disproportionate level of cuts in the name of deficit reduction. The reductions endured by the FCIP through the 2008 Farm Bill and the 2011 Standard Reinsurance Agreement (SRA) total $12 billion. In an attempt to "streamline and modernize" the FCIP, the Administration has already made significant reductions to subsidies for crop insurance which subsequently raises the price of premiums for farmers. When asked, farmers have consistently stressed that ensuring a strong safety net is vital to the future of the nation's farming communities. As Congress continues to work on the 2012 Farm Bill, it is imperative that any decisions or changes to the present crop program serve our farmers' risk management needs and not simply shift funds away from the FCIP. In addition, any new proposals should not impinge or overreach on the practical and successful programs already in place. IIABA understands the need to revisit Federal programs over time; however, additional cuts to the FCIP will reverberate in small rural communities across the country, jeopardizing the efficient and effective quality of services provided to farmers. Further cuts to the FCIP on top of the $12 billion over 10 years will only hinder small business growth in America's heartland.

Agents—The Exclusive Sales Force of the FCIP

The Federal Crop Insurance Program (FCIP) is a powerful success story, and IIABA is proud to have been a key player in the evolution of the program as it moved from a federally-provided program to a public-private partnership. Independent agents are the sole delivery mechanism of the FCIP, and this important and successful relationship has resulted in the program offering better protection to farmers over the past 30 years. In 2011, approximately 18,000 agents serviced 1.15 million crop insurance policies. These policies cover 83% of the nation's cropland and provide the strongest safety net to America's world food producers. In 2011, companies and agents sold policies worth a record $4.5 billion in producer paid premiums covering a record $114 billion in production.

Crop insurance provides essential benefits to farmers and ranchers, and it has proven instrumental in achieving the program's goal of helping farmers make well-informed risk assessments and choices about the coverages they purchase. Crop insurance agents are experts in the FCIP, which makes them exclusively skilled at assisting farmers who have questions or concerns about their coverage.

A Federal Government entity will never be able to achieve the level of efficient services provided to farmers by independent agents. If the goal of the Administration is to continue to reduce its administrative costs, shifting additional responsibilities over to the Farm Services Agency (FSA) will have the opposite effect. Agents are already highly skilled and knowledgeable about the intricacies of the numerous policies and programs available to farmers. Training FSA employees unfamiliar with these polices, particularly with respect to the extremely detailed technology programs used to execute these policies, will be costly. In addition, providing all FSA offices with the necessary technological tools (*i.e.,* color printers, computers, *etc.*) will result in a heavy cost burden.

Agent Workload and Program Complexity

Even more than other insurance lines, a crop agent's responsibilities require a hands-on approach. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 hours on a policy during the sales window alone. A transaction typically begins with the agent quoting the wide variety of different plans of insurance available, then explaining production reporting and supporting record requirements to the farmer. The agent explains different date requirements by crop and coverage for application, the actual production history (APH), the acreage report, and the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent must also review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide the farmer with a copy.

Additionally, the agent is responsible for implementing procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. All of the preceding goes into writing the policy—and does not even factor in the consequences, and the time spent in the event of a potential loss, which occurs more often than any other line of insurance. The sale of crop insurance is indeed extremely complex and challenging.

Preventing Waste Fraud & Abuse

In 2011 the RMA included an Anti-Rebating Certification Clause in the 2012 Document Standards Handbook. The certification will be included on the form in which liability is established for the policy, *e.g.,* acreage reporting time. In a strong attempt to preserve the integrity of the crop program, the inclusion of this certification was *spearheaded* by the IIABA Crop Insurance Task Force. Rebating undermines consumer confidence in agents, the companies and the crop insurance program as a whole. It is important to address and halt any future manipulations of the program. (See final page for certification language).

Crop Insurance—an Indispensable Financing Tool

The Federal Crop Insurance Program is an indispensable financing tool. Without crop insurance, many farmers would be unable to obtain financing. Protection provided by the program gives a lender much more confidence in extending credit. Crop insurance makes the process of farmers obtaining annual operating loans much easier and more efficient. In the case of farmers who have purchased crop insurance, banks usually require less collateral because they consider these farmers to be better protected. Crop insurance is especially critical for younger farmers with less collateral who would be unable to obtain financing without crop insurance. The purchasing cost of crop insurance provides certain benefits for the farming operation, including greater ability to finance land purchases, enter into land rental contracts, and arrange production input purchases. Farmers understand more and more that crop insurance is another cost of doing business and have reiterated that preserving the FCIP should be a fundamental goal of the farm bill.

Standard Reinsurance Agreement (SRA)

The Big "I" has serious concerns with components of the 2011 Standard Reinsurance Agreement (SRA) which cut the FCIP by $6 billion over 10 years and made unprecedented and sweeping changes to the delivery system. SRA negotiations are held behind closed doors without agent participation, yet the outcome of these negotiations has a huge impact on the day to day business operations of every crop insurance agency. Last minute changes to the SRA were unveiled by the United States Department of Agriculture (USDA) in the final version of the SRA in an all-or-nothing approach presented to both the agents and the companies. The 2010 SRA radically changed the reimbursement rate for administrative and operating (A&O) expenses in a way that shifts significant delivery dollars between states, resulting in massive cuts to certain states such as California, Florida and New York in 2011—states with crops that USDA maintained the SRA was intended to benefit by "rebalancing" the distribution of insurance. In addition, Midwest states took a disproportional level of cuts to their A&O, a part of the country that has already been hit hard by the economic recession. The bottom line from the fallout of the SRA is that five states took the brunt of the SRA cuts. Those states were Iowa, Illinois, Indiana, Minnesota and Nebraska. Crop insurance is an essential component of job creation in these rural states. Many agencies employ full and part time support staff (in addition to agents) to help service customers. Continuous cuts to the program, coupled with great uncertainty in the future of the program, have begun to have a destabilizing effect on rural jobs.

The SRA imposed an 80% cap on the compensation a private company may pay private agents for the delivery of insurance. This unreasonable agreement represented the first time that RMA had attempted to enforce price controls and regulate agent crop insurance commissions directly rather than allow the marketplace to determine the appropriate agent commission rate.

The proposed 80% commission cap does not save the government any money, or affect the budget baseline for the program. The cap only serves to further compromise the crop insurance program and its intended beneficiaries—farmers and ranchers. IIABA feels strongly that the 80% commission cap should be removed. The $6 billion cut to the program—on top of the cuts already made to the 2008 Farm Bill—coupled with the controlling commission cap proposal, greatly undermine crop insurance agents and the service they can provide to producers. SRA negotiations are held behind closed doors without agent participation, yet the outcome of these negotiations has a huge impact on the day to day business operations of every crop insurance agency. IIABA feels *strongly* that the 80% commission cap should be removed.

The Administration's broad reforms have also ultimately led to the SRA containing a "covenant not to sue," which effectively restricts agents from bringing lawsuits against the Federal Government for claims related to the A&O cuts. Insurance agents are not parties to the SRA and should not be forced to waive their legal rights. The lasting effect of this covenant is that agents cannot negotiate with RMA about the A&O cuts during the drafting of the SRA, and agents are now going to be denied their legal right to challenge these cuts in court. RMA is silencing agents by not allowing them to have a voice on an issue that directly affects their livelihood.

Conclusion

We greatly appreciate the opportunity to present our testimony at this hearing, and we are more than happy to provide further details on any of the issues I have discussed. The Big "I" understands the challenges the Committee faces in crafting a new farm bill, but we also believe that this vital program has proven its strength and effectiveness and will serve as a springboard to an even more prosperous future of agricultural development.

ATTACHMENT

D. ANTI-REBATING CERTIFICATION STATEMENT

In accordance with section 508(a)(9) of the Federal Crop Insurance Act and the SRA, a company and its affiliates are prohibited from providing a rebate, except as authorized in section 508(a)(9)(B).

The Anti-Rebating Certification is an individual certification of the applicant/insured and agent required at the time liability is established. For the 2012 CY, this statement is non-substantive. In subsequent crop years, this certification will be substantive on the form in which liability is established for the policy, *e.g.,* acreage reporting time. The AIP has the discretion to require this certification at other times.

[See Exh. 5].

The CHAIRMAN. Thank you, Mr. McSherry.

Mr. Weber for 5 minutes.

STATEMENT OF TIM WEBER, PRESIDENT, CROP INSURANCE DIVISION, GREAT AMERICAN INSURANCE COMPANY, CINCINNATI, OH

Mr. WEBER. Mr. Chairman, Ranking Member Boswell, and Members of this Subcommittee my name is Tim Weber and I am here today to speak on behalf of the 15 crop insurance companies that deliver the Federal Crop Insurance Program. Thank you for this opportunity.

In recent months, we have heard a lot about crop insurance. We have heard major farm groups call on policymakers to maintain a strong, effective, efficient, and affordable crop insurance system. We have heard three major lending organizations—the American Bankers Association, Independent Community Banks of America, and the Farm Credit Council—call on policymakers to maintain a strong and vibrant Federal Crop Insurance Program for American farmers and ranchers.

We appreciate this Committee's dedication to ensuring the availability of risk management tools to keep American agriculture strong. Crop insurance is key in the financial stability of American farmers and ranchers and enables them to supply our country with feed, fuel, fiber, and fuel.

The 2011 crop year, one of the most destructive weather events in recent history, taught us that crop insurance is absolutely critical. With large farm losses, high indemnity payments, farmers who might otherwise be out of business are back in their fields again this year. When farmers and ranchers are left picking up the pieces after disasters, we are proud to help them provide prompt delivery to indemnity payments, often in 30 days or less. The responsiveness of the private sector delivery system and the Federal Crop Insurance Program itself is unmatched.

It is not surprising that a union of government employees have proposed to take over the crop insurance duties. The private sector has been very successful in achieving Congressional objectives to increasing crop insurance participation. Private companies and agents have worked diligently to educate producers and expand their risk management protection. Some 12,500 licensed agents and nearly 5,000 certified adjustors have a remarkable record for reducing fraud, waste, and abuse to a very low level. It makes very little sense to change a truly successful program's current competitive proven delivery system for a government system that can only result in reduced services to U.S. farmers and ranchers.

Congress has taken great steps to enhance crop insurance over the years. Reform legislation enacted in 1994 and in 2000 strengthened the public-private partnership and encouraged greater farmer participation. These steps put us on a path to success by combining Federal dollars with farmer premiums to make otherwise cost-prohibitive policies affordable to farmers of all sizes, all backgrounds, including those of limited resource and social disadvantage.

I would like to share some figures with you that demonstrate how this Committee has had a positive impact on crop insurance for farmers and ranchers. In 2011, crop insurance provided over $114 billion of coverage. This compares to $28 billion in 1998. In 2011, over 265 million acres were insured compared to 180 million in 1998. And in terms of the level of protection producers are choosing, well over half are writing coverage at 75 percent level and above and about 25 percent is written at the 80 and 85 percent level.

Today, crop insurance is indeed the cornerstone to risk management and provides coverage for well over 100 crops across the country. As development of the 2012 Farm Bill progresses, we appreciate that farm and lending organizations have publicly acknowledged the value of crop insurance. We respectfully caution against changes that would negatively affect farmers and ranchers and the private sector delivery system.

In 2008, crop insurance has taken more than $12 billion in Federal funding cuts, which sets agriculture apart as one of the only sectors if not the only sector to take repeated budget cuts in order to reduce the deficit. Additional cuts such as those suggested by the Government Accountability Office would have unintended effects on reducing program participation, discriminating against larger farmers, higher-risk farms, farms producing higher-valued crops, and increasing calls for *ad hoc* disaster. In short, adopting such a proposal would risk undoing the great progress made protecting U.S. agriculture. What Mother Nature and the volatile commodity markets have in store for farmers and ranchers this year is unknown, but those of us in the crop delivery system are ready to ensure their survival when disaster strikes.

Thank you again, Mr. Chairman, for this opportunity to be here today.

[The prepared statement of Mr. Weber follows:]

PREPARED STATEMENT OF TIM WEBER, PRESIDENT, CROP INSURANCE DIVISION, GREAT AMERICAN INSURANCE COMPANY, CINCINNATI, OH

Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee, thank you for inviting crop insurance companies to appear at today's hearing to discuss farm policy and the importance of crop insurance as agriculture's fundamental risk management tool.

My name is Tim Weber. I am President of the Crop Insurance Division at Great American Insurance Company located in Cincinnati, Ohio. Great American Insurance has been in the business of offering risk management tools to agricultural producers for over 100 years. We have been involved in the private sector delivery of federally reinsured multiple peril crop insurance since 1980. Great American currently writes both private hail insurance and federally reinsured multiple peril coverage in 32 states.

I am pleased to have the opportunity today to present this testimony on behalf of the approved insurance providers (AIPs). The statement was developed jointly by National Crop Insurance Services (NCIS), the Crop Insurance and Reinsurance Bureau (CIRB), and the American Association of Crop Insurers (AACI). Therefore, it encapsulates the common views of these organizations.

This morning, I will examine how crop insurance evolved to become the essential policy that it is today; discuss the role crop insurance has played since 2008, a timeframe which contains the 2 most costly years in the history of crop insurance; outline recent challenges facing AIPs; and provide guidance as this Committee continues into the 2012 Farm Bill process.

The Function of the Private Sector Delivery System

Currently, there are 15 private sector insurance companies that sell and service policies through the Federal crop insurance program. In 2011, these AIPs wrote more than $11.9 billion in Federal multiple peril crop insurance premiums covering over 265 million acres of farmland, protecting over 80 percent of planted acres. The potential liability exceeded $114 billion.

These private sector companies service policies that encompass all farmers and ranchers participating in the Federal and private programs, including those who are limited resource and socially disadvantaged. In partnership with the Federal Government, our members comprise the delivery system for this critical risk management program.

The Increasing Importance of Crop Insurance in Protecting America's Food, Fiber, Feed, and Fuel Production

Although the crop insurance program was originally launched in 1938, it was not particularly successful because, as late as 1979, it was available in only ½ of the nation's counties, and in those counties, only one or two crops were covered. In 1980, Congress passed legislation designed to increase participation in the crop insurance program and make it more affordable and accessible for farmers. This modern era of crop insurance was marked by the introduction of a public-private partnership between the U.S. Government and private insurance companies. Under this partnership, private insurers began administering insurance policies and delivering indemnities quickly to insured farmers.

Congress greatly enhanced the crop insurance program in 1994 to strengthen the public-private partnership and encourage greater farmer participation. This landmark legislation, and a subsequent bill enacted in 2000, put us on the path to success by combining Federal dollars with farmer premiums to make otherwise cost-prohibitive, high-coverage crop insurance policies universally affordable to farmers of all sizes. The changes also expanded the role of the private sector in developing new products—such as revenue insurance policies—that would help farmers and ranchers manage their risks and enhance their marketing plans. With these additional changes, participation in the program greatly expanded.

By 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase over 1988. And since 1998, crop insurance has continued to evolve in positive ways. In 2011, over 265 million acres were protected by crop insurance. Since 1998, meaningful buy-up coverage has increased by over 125 million acres, while basic catastrophic (CAT) coverage has declined by over 42 million acres, to a low of 19 million acres insured in 2011. Federal support combined with producer premiums in 2011 provided over $114 billion in liability protection, compared with approximately $28 billion in 1998.

Today, crop insurance is the cornerstone of most farmers' risk management portfolios and covers all major grain and oilseed crops; cotton; nursery; many fruits, vegetable and tree nut crops; rice; potatoes; forage and livestock. We appreciate that farmers and ranchers have found crop insurance to be a great value and look forward to being involved in discussions regarding proposals intended to enhance crop insurance coverage.

2011: A Year for the Record Books

With most claims now settled, crop insurance companies have paid out a record $10.7 billion in indemnity payments to America's farmers and ranchers in 2011. This has already surpassed the former record of $8.68 billion in indemnities paid in 2008.

The year 2011 was perhaps one of the most destructive weather years in history—featuring severe droughts in the Southern Plains, hard freezes in Florida, flooding along the Mississippi and Missouri Rivers, tropical storms in the South and Northeast, and a broad swath of destruction in the Central Plains. To date, roughly $1 out of every $4 indemnity payments went to farmers and ranchers in Texas, who have received $2.6 billion in indemnities. For every dollar of premium in Texas for the 2011 crops, producers have received $2.35 in indemnities.

Based on crop insurance indemnities paid, the next hardest hit state was North Dakota, with $1.6 billion in indemnities. The other states to fill out the top five were Kansas, South Dakota and Minnesota. Together, these five states accounted for 58 percent of the 2011 indemnities paid nationally.

Since 2008, private crop insurance company indemnity payments have totaled more than $28 billion. This figure is significant for a number of reasons. First, the private sector, not taxpayers, is carrying a significant portion of the risk for these policies. Second, the policies are being written and managed by private sector crop insurance agents who meet personally with the farmer and devise a plan that fits the farmer's risk profile. Nearly 5,000 certified loss adjusters determine losses and ensure that the farmer complies with the mandates of the policy to reduce fraud and abuse. Lastly, it is the private sector, not the government, that delivers the indemnity payment. These companies must deliver the crop insurance indemnity payment to the producer within 30 days. Contrast that with government-run disaster programs, which can take months, or years, to get the payments into the hands of farmers and ranchers.

When farmers and ranchers are left picking up the pieces after weather or market disasters, they rely on speedy 30 day delivery, not cumbersome 30 month delivery. The fact that the United States is planting crops just months after such devastation in 2011 should not be taken for granted. Crop insurance is permitting farmers and ranchers to recover from last year's disasters and return to their normal practices in 2012.

Crop insurance is more than just periodic payments. It has become indispensable for producers because it helps them obtain needed operating capital, which would otherwise be highly restricted. Equally important, farmers have also integrated crop insurance and marketing to the point that they are very willing to buy crop insurance at high coverage levels, even if they expect no indemnity, to ensure the adequacy of resources to cover forward marketing commitments in the event disaster strikes.

Doing More With Less

The year 2008 was significant for crop insurance for a number of reasons. First, it is the second costliest year in American history in terms of damage to the agricultural sector. Next, since 2008, crop insurance has taken more than $12 billion in Federal funding cuts, a figure which sets agriculture apart as having been one of the only sectors that has taken repeated budget reductions to help address the deficit and curb government spending.

The first reduction of $6 billion occurred as part of the 2008 Farm Bill. Another $6 billion resulted from the 2011 Standard Reinsurance Agreement negotiations between crop insurance providers and the U.S. Department of Agriculture.

The 2008 Farm Bill cut was more than 10 percent of baseline crop insurance funding, while the SRA cut was an added cut of more than seven percent of baseline funding—a very large total reduction in the Federal investment in crop insurance infrastructure in just 4 years. This reduction is astounding when one considers that crop insurance represented only eight percent of farm bill spending and a meager 1⁄10 of 1 percent of overall government outlays.

And while Federal financial support for crop insurance has been reduced by recent cuts, insurers' exposure to risk has been increasing. Rising demand for major food, fiber, feed, and fuel crops since 2008—fueled by booming exports and the growing renewable fuel industry—has pushed commodity prices to record highs. While this has been great news for the agricultural sector and has been a factor in pulling the overall U.S. economy out of the prolonged and deep recession, it has greatly expanded the value of the crops and hence the risk exposure of AIPs.

The crop insurance delivery system has responded and is doing more with less resources and doing it well. That is why crop insurance has been widely praised by leading farm groups and farmers as the single most important risk management tool available. In the interest of time, I will not read through the long, positive string of quotes from most major commodity groups, but I am including a sampling of quotes pulled from newspapers across the country in this statement for the record.

- "Crop insurance—which is the most important component of the farm safety net for specialty crop producers and growers of most major crops—was specifically created to ensure that private insurance companies, not taxpayers, shoulder the burden of funding payouts following crises."—Roger Johnson, former agriculture commissioner for North Dakota and current President of the National Farmers Union, in an op-ed that appeared in the **Omaha World Herald** on May 31, 2011.
- "Now I understand that when Congress starts trimming the budget, everyone is going to argue that their specific program deserves protection. While I can't speak for other aspects of Federal spending, I can attest to the fact that crop insurance and other aspects of farm policy work for me. Without a doubt, they are the policies that keep family farms like mine in business and our nation is food secure."—Greg Schwarz, President of the Minnesota Corn Growers Association, in an op-ed that appeared in the **Minneapolis Star Tribune,** June 13, 2011.
- "Because of the many challenges, all young farmers depend on components contained in the 2008 Farm Bill—most notably crop insurance—to provide lenders with the confidence and collateral they need to extend loans. Politicians continue to put these components to the test, even though without crop insurance, farmers throughout the South, Midwest, and various other parts of the country, would have been left with no crop—and no starting point on which to rebuild—due to the range of floods, droughts, tornadoes and frosts, this year alone."—Matt Huie, a 35 year old farmer who raises cotton, corn, sorghum, and livestock, in an op-ed that appeared in the **Dallas Morning News** on August 17, 2011.
- "Without crop insurance, I'm not sure that my operation would still exist—and the same goes for many of my neighbors—not just in Kansas but in the Texas Panhandle where they haven't seen a drop of rain since October 17, and Missouri, where flooding has left thousands of acres under water and unproductive."—John C. Thaemert, Vice President & Trust Officer at Citizens State Bank & Trust Co. in Ellsworth, Kansas and past President of the National Association of Wheat Growers, in an op-ed that appeared in **Agri-Pulse** on September 6, 2011.
- "But perhaps most importantly for those of us who farm, the crop insurance program has the efficiency and speed of the private sector when it comes to getting payments into the hands of those who have suffered economic loss. The

crop insurance policy recognizes that farmers are often over-extended after planting and will be very short of cash in hand if a crisis hits until the harvest season comes."—Dee Vaughan, the current President of the Southwest Council of Agribusiness and the former President of the National Corn Growers Association, in an op-ed that appeared in the **Lubbock Avalanche-Journal** on September 11, 2011.

- "The speed of delivery of crop insurance—because it's administered by private-sector companies—makes it a different kind of animal. In fact, if a natural disaster strikes and I'm covered by a crop insurance policy, typically the payment comes to me in 1 or 2 weeks, not in 1 or 2 years. Because of that speed of delivery, I can quickly recover from the loss and replant the field, garnering myself some needed income for the year and putting some food on the tables for consumers."—Quentin Bowen, who raises corn and soybeans, in an op-ed that appeared in the **Lincoln Star-Journal** on October 31, 2011.
- "Now is not the time to weaken crop insurance and put taxpayers—instead of private insurance companies—on the hook for picking up the pieces. If anything, discussions should be centered on ways to strengthen crop insurance and the rest of the safety net. After all, there's far more at stake than farmers in the next farm bill."—Neil Widner, Chairman of the American Crystal Sugar Co. and a sugarbeet, wheat and soybean farmer, in an op-ed that appeared in the **Fargo Forum** on November 30, 2011.
- "Crop insurance is the quintessential tool for managing farm risks because it allows each farmer to pay for the plan that makes the most sense for him or her. Just like car insurance, health insurance or homeowner's insurance, crop insurance allows the individual to assess his tolerance for risk and loss, and purchase plans to meet those needs."—Jay Armstrong, who farms corn, soybeans, and wheat, in an op-ed that appeared in the **Garden City Telegram** on December 24, 2011.

The 2012 Farm Bill, and Beyond

How crop insurance emerges from the 2012 Farm Bill process will hold major ramifications for this risk management program and for America's farmers and ranchers who have come to rely on it. The ability of Federal crop insurance to shoulder a significant portion of the risk that U.S. producers face lies with the legislators who are writing the 2012 Farm Bill and charting a course for the future of farm policy.

We firmly believe that crop insurance should remain the core risk management tool, and we are committed to the public-private partnership of program delivery, which directly supports more than 20,000 private sector jobs across the country. The private sector should continue to provide and deliver crop insurance options, share in the risk of loss caused by changing markets and natural disasters, and adjust losses for insurable crops. We believe the private sector, not the government, is the best way to provide the individual risk management information and tools that are indispensable for producers today. We understand that is the way farmers and ranchers want the program to operate, and trust in our Congressional leaders to stay the course.

As development of the 2012 Farm Bill progresses, the crop insurance delivery system is in a unique situation. Companies are still processing and delivering record payouts to farmers and ranchers for their 2011 losses. At the same time, crop prices remain elevated far above historic levels, and projections show that producers will continue to take advantage of that and push themselves to plant to capacity. This indicates the need for crop insurance is likely to rise, as will insurers' risk exposure. With this growth comes an increasing sensitivity to additional changes to the program and the delivery system—because the industry's administration and organizational infrastructure continues to be pushed to the limit.

For example, reporting and regulatory requirements have increased already through the SRA, and new farm bill provisions could impose additional requirements. The AIPs maintain very serious concerns about the President's recent budget proposal, which would weaken the program and delivery infrastructure by removing an additional $8 billion in funding over the next 10 years. This program, the primary risk management tool for producers, is now adjusting to the cumulative effects of funding cuts over the past 4 years, record claims in 2011, and significant program changes in store for 2012 and 2013. Any further changes affecting the program must be considered very carefully as swift changes can have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers. In short, we risk undoing the great progress made in protecting U.S. agriculture from risks that farmers and ranchers cannot manage alone.

In the development of the 2012 Farm Bill, many commodity organizations and lawmakers have stated their support for crop insurance, and in developing Title I proposals, many have expressed an interest in revenue protection. Revenue protection policies, which insure producers against yield losses and revenue losses, made up ⅔ of crop insurance policies nationwide in the 2011 crop year and accounted for 81 percent of premium. Revenue coverage is clearly a vital link in the farm safety net, and we are proud to be—and should remain—providers of the products currently available.

While we believe that Title I programs should not compete with crop insurance at all, we recognize the difficulty in creating revenue programs within Title I that are distinctly different from crop insurance revenue products. In 2011, policies with coverage levels of 80 and 85 percent accounted for about ¼ of total premium. New supplemental revenue programs potentially compete with and may displace these high levels of crop insurance protection that Congress and AIPs have worked so hard for so long to achieve. We recognize and share the concern about program duplication, and we respectfully request that interaction between Title I programs and crop insurance—the adverse direct or indirect effects on crop insurance—be minimized.

As providers of this successful risk management tool, our goal is to strengthen our ability to assist producers in managing their risk through a strong, efficient, and effective crop insurance program. It is the key to financial stability for America's farmers and ranchers, enabling them to supply our country with food, fiber, feed, and fuel. Without this support, large numbers of producers would be unable to manage weather and market risks with the success they can today.

Conclusion

What Mother Nature or the wildly fluctuating commodity markets have in store for farmers and ranchers this year is unknown. But 2011 taught all of us to expect the unexpected, and those of us in the crop insurance delivery system will be ready to help farmers pick up the pieces no matter what the future holds.

In summary, crop insurance providers are committed to continued private sector delivery of this successful—and essential—risk management tool. We believe in competition and the provision of services through the market, and we think that is the way producers want the program to operate. As farmers and ranchers increasingly rely upon crop insurance to manage risk and as our risk exposure continues to rise, we respectfully caution against swift changes that could negatively impact the program. Crop insurance continues to adjust to the cumulative effects of funding cuts over the past 4 years, record claims in 2011, and significant program changes in store for 2012 and 2013. Additional cuts such as those proposed in the President's budget could have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers.

We are hopeful that policymakers will recognize the record of success that crop insurance has demonstrated and will continue with a policy that recognizes the key role crop insurance plays in helping farmers and ranchers manage risk and ensuring an ample and stable U.S. food, fiber, feed, and fuel supply.

Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee, thank you for the opportunity to be here today. We look forward to continued dialogue with you and your staffs throughout the farm bill reauthorization.

ATTACHMENT

State	Net Acres	Liabilities	Total Premium	Indemnity	Loss Ratio
U.S.	265,405,179	114,104,391,259	11,954,936,150	10,750,474,073	.90
Texas	36,906,751	5,465,269,133	1,095,629,331	2,570,340,127	2.35
North Dakota	23,541,052	6,108,140,921	1,067,304,344	1,648,900,766	1.54
Kansas	17,402,867	5,296,285,345	796,996,676	1,087,512,734	1.36
South Dakota	15,064,341	5,054,744,160	725,405,668	475,788,323	.66
Minnesota	17,144,947	9,482,671,987	844,734,854	449,167,714	.53
Top 5				6,231,709,664	
Missouri	8,240,382	3,390,336,359	404,049,825	444,758,439	1.10
Oklahoma	5,141,362	1,000,600,202	204,424,097	438,332,126	2.14
Illinois	17,738,949	12,336,752,079	928,639,287	408,117,802	.44
North Carolina	3,523,232	1,853,272,137	217,685,420	352,746,386	1.62
Iowa	21,467,872	14,679,854,813	1,030,480,901	294,949,543	.29
Indiana	8,597,616	5,786,592,053	515,537,241	294,767,002	.57
Nebraska	15,595,231	8,635,348,808	759,860,115	266,844,432	.35

State	Net Acres	Liabilities	Total Premium	Indemnity	Loss Ratio
Georgia	2,666,049	1,504,152,238	203,180,664	219,791,647	1.08
Arkansas	5,110,908	1,517,577,725	150,114,809	162,228,639	1.08
Montana	10,942,603	1,216,679,784	214,702,304	158,169,671	.74
Mississippi	3,544,688	1,356,731,762	155,040,210	155,160,912	1.00
Ohio	6,603,852	3,855,352,768	379,483,104	153,925,766	.41
Colorado	5,470,849	1,308,352,378	212,685,068	141,453,931	.67
California	4,057,166	4,781,873,593	248,148,659	102,148,754	.41
Kentucky	2,778,876	1,462,199,947	154,079,578	99,247,937	.64
South Carolina	1,148,478	531,590,424	79,195,156	70,454,349	.89
Florida	1,864,539	2,799,775,360	113,153,600	69,140,945	.61
Tennessee	2,451,942	1,120,710,761	123,876,709	65,005,498	.52
Louisiana	2,778,402	1,006,904,149	102,165,676	62,555,649	.61
Pennsylvania	1,177,910	541,756,123	66,526,830	61,395,959	.92
Michigan	4,119,641	2,082,684,687	211,663,147	59,102,526	.28
Washington	2,838,965	2,096,135,213	148,172,069	53,748,476	.36
Alabama	1,270,599	566,187,546	87,546,161	51,640,447	.59
Wisconsin	5,002,145	2,739,932,861	296,068,480	51,495,345	.17
Idaho	2,148,219	1,024,681,179	84,033,291	50,649,442	.60
New Mexico	1,888,679	185,478,884	25,960,500	45,442,062	1.75
New York	951,756	472,671,952	36,240,939	44,115,223	1.22
Virginia	1,254,918	591,995,651	74,555,124	36,552,443	.49
Maryland	911,395	398,757,463	45,968,402	30,086,294	.65
Arizona	475,809	341,625,355	33,030,150	12,412,030	.38
Oregon	956,698	732,806,736	44,199,413	10,628,095	.24
Delaware	359,314	145,407,482	17,520,814	9,055,768	.52
Maine	124,083	79,611,377	8,524,142	8,081,832	.95
Wyoming	1,547,858	128,417,958	17,098,150	7,804,167	.46
Connecticut	23,519	65,814,951	5,007,332	6,434,980	1.29
Vermont	75,872	32,009,956	2,360,372	6,397,089	2.71
New Jersey	172,081	110,799,978	8,959,335	3,099,551	.35
Hawaii	23,455	79,785,895	1,274,771	2,530,034	1.98
Utah	155,341	29,530,033	4,095,206	2,487,593	.61
Massachusetts	26,983	46,485,602	3,004,179	2,305,940	.77
West Virginia	47,531	20,526,914	2,723,423	1,673,109	.61
Nevada	53,337	31,174,795	3,171,175	1,437,812	.45
New Hampshire	8,954	6,734,333	478,081	199,371	.42
Rhode Island	1,402	1,106,765	95,353	162,558	1.70
Alaska	5,761	502,684	86,015	26,835	.31

Table for 2011 as of May 7, 2012.

The CHAIRMAN. Well, thanks, Mr. Weber. And I thank all three of our panelists.

Ms. Gerdes, you were pretty clear in your opening statement that you do not favor payment limits or having conservation requirements tied to insurance. Could I get the other two witnesses just to kind of give me your position with respect to payment limits and conservation requirements?

Mr. MCSHERRY. Mr. Chairman, I would agree, no tie.

The CHAIRMAN. No tie, okay.

Mr. WEBER. Yes, I would also agree——

The CHAIRMAN. Okay.

Mr. WEBER. No tie.

The CHAIRMAN. A lot of discussion over the last several days about shallow loss coverage and others. My good friend Randy Neugebauer has a proposal on a supplemental coverage option for this shallow loss arena. Can any of the three of you give us your thoughts on an insurance product like that delivered through the private sector that you are most familiar with be better than one run by FSA like the ARC Program, whatever is going on?

Ms. GERDES. Mr. Chairman, absolutely I would welcome the opportunity to work on a program like that and to provide it to my farmers.

Mr. McSHERRY. Mr. Chairman, I would agree. I think there are a lot of folks between the company ranks and the insurance and our producers that could come up with a program delivered through the private sector.

Mr. WEBER. Mr. Chairman, I would also agree. The private industry is well positioned, capable, and willing to take on a delivery of a shallow loss program such as SCO.

The CHAIRMAN. Let me ask this question. What are the barriers to the private sector coming up with a product that doesn't have a premium support tied to it, would just be a private sector product? Are there mechanical barriers to the industry being able to address this issue? And maybe, Mr. Weber, you ought to whack on that.

Mr. WEBER. Yes, sure, I will answer your question for you.

The primary barrier is cost. You know, that is what has really driven the participation in the Federal program is the premium assistance. Without that premium assistance, many products become a bit cost-prohibitive. Our company as many as the others that we compete against do have private products out there as a means of trying to address some of the voids that are present in the MPCI policy but are very cost-prohibitive.

The CHAIRMAN. Okay. Well, other than who shares the premium issue, are there things in law that prevent this product that would need to be changed if we went to something like this would have to be changed as well?

Mr. WEBER. Yes. There is statute out there that prevents a publicly subsidized program from competing against the private sector if that answers your question.

The CHAIRMAN. But there are issues, then, in law that would have to be addressed if we decided to go with another product like SCO?

Mr. WEBER. No, I misunderstood you. No, there is nothing that I am aware of that would prevent us from going forward with SCO.

The CHAIRMAN. One of the complaints I get from the producers' side is that they have to share information with their agents and they also have to share almost the exact same information with FSA. And maybe you mentioned this in your opening statement, but could you talk to us briefly about can that issue be solved? Can you guys kind of work out the differences and have a one-stop kind of place where data from producers can be deposited that both of you would then work off of to do whatever it is you need to do?

Ms. GERDES. Absolutely, Mr. Chairman. As a farmer myself, my own husband comes home every time he certifies and says why in the heck am I doing this in two places? I think the key is the farmers' information is the accurate information. And what he puts down is what should be accurate, whether he does it at the agent's office or the FSA office. I am more than happy to share the information that my farmer provides to me to FSA. I wish we had the reciprocal ability from FSA. I would say it is not the FSA office's problem, thereby regulation prohibited from sharing with us now. I would encourage you to work on that because it would be ideal to get that worked out. But the key thing is the farmers' information should be what is accurate.

The CHAIRMAN. Would we have to facilitate additional waste, fraud, and abuse investigations if RMA and FSA were working off the same set of data?

Ms. GERDES. It would cut out all of the busy work that agents do and FSA does over 1.2 acres here, 4 acres there, 5 acres here. I can tell you I just worked on a situation last week under the SURE Program that took me 2 hours with the farmer in my office on the phone with the county director in a local area office. We spent 2 hours doing it. I said at the end of the conference I will send you the documentation that confirms this. She said oh, no, thank you. I don't need it.

The CHAIRMAN. All right.

Ms. GERDES. We can't take your information.

The CHAIRMAN. I got you.

Well, the gentleman from Iowa, Mr. Boswell, for 5 minutes. Thank you.

Mr. BOSWELL. Thank you, Mr. Chairman, and thank you to the panel. I hate busy work, too, so your point is well made.

And I would just say something to the rest—I wish the whole Committee was here. Just very briefly, I was born and raised on a farm, actually born in a farmhouse, left the farm, went off to the military and was gone for 20+ years and came back to my dream and got back into something and had to learn a lot. I learned real quickly that I had to have a good bank, a farmer store if you will, and then I learned a little later I need a good insurance agent, very, very important. It is just a must in this high-capital economy we live in, particularly in crop production, animals, the whole works. So I wanted to just say that to you. And I appreciate what you bring.

A couple things I would like for you to comment on. It may be awkward, I don't know. I am not trying to be awkward. I want us to have a good bill, as you do. And it is terribly important. But I would like to know two things. What is your reaction to the recent GAO report on crop insurance that was requested by one of the Senators? Just your brief comment, all of you.

Mr. WEBER. Yes, I will take that, Congressman. You know, we feel that a premium subsidy limit would be very damaging to the Federal Crop Insurance Program. We feel it would have a detrimental effect on participation. You know, I mentioned in my comments that it would discriminate against not only large farmers but we would even argue that those farmers that would touch that limit aren't considered overly large by today's standards but also by high-value crops. We have situations where in California, as an example, a wine grape grower would hit a cap at 56 or 58 acres. So we think it is very intrusive.

Mr. BOSWELL. Okay, thank you. Please.

Mr. MCSHERRY. I would agree. Our opinion is we think that coverage would start to be decreased as the subsidy was reduced. We also think that it would open up the door for request of *ad hoc* payments. So, yes, we do not favor that at all.

Mr. BOSWELL. Okay, thank you.

Ms. GERDES. There is one unintended consequence that has not been thought about in regard to this discussion that I haven't heard in the last 2 days. On my book of business, my average acres to reach that limit would be 568 acres. The reason that number varies from area to area so dramatically is I live near the Missouri River, I insure an awful lot of ground in Iowa, Missouri, Kansas, and Nebraska. It is high-risk ground. Those people are the people you need in the program or you are going to have *ad hoc* disaster requests that you cannot handle.

Mr. BOSWELL. Appreciate the comments. Again, I don't want to make it awkward for you but I need to know. We need to know. What are your thoughts on the American Farm Bureau Federation proposal for catastrophic loss coverage up to a certain level that would be available to all commodities, including specialty crops then utilizing the privately delivered crop insurance products beyond the protection level provided by the government? Just briefly, my time is short.

Mr. MCSHERRY. Okay, yes, I will start. From a crop insurance industry perspective what we think is important is that as various concepts are being crafted that it is very important that we mitigate the interaction between any such program and the current successful Federal Crop Insurance Program. And our concern from an industry perspective is that it creates a great deal of interaction that we feel would be harmful to the current Federal Crop Insurance Program.

Mr. BOSWELL. Thank you.

Ms. GERDES. I agree absolutely.

Mr. BOSWELL. Thank you very much.

With that, Mr. Chairman, I am going to yield back.

The CHAIRMAN. All right. Thank you, Mr. Boswell.

Mrs. Schmidt for 5 minutes.

Mrs. SCHMIDT. Thank you. And I am going to start with Mr. Weber, my good friend from Cincinnati.

Mr. Weber, there has been some interest in transferring some of the work that companies do back to the government. In fact, there is one proposal that says the Farm Service Agency should actually administer crop insurance. What is your view on having the government assume a greater role in crop insurance delivery either in part or in full? And anybody else that wants to add to it.

Mr. WEBER. Yes, thank you for the question. We feel that this recommendation falls into the we have been there, done that category. In the early days for private sector delivery which began in 1980, this industry did have dual delivery both through the private sector and through the public sector. And that was ultimately discontinued in the early to mid-1990s I believe. And the reason it was discontinued was because public delivery could not compete with private sector delivery in terms of the efficiency and the service levels that we have been able to provide.

And second, the private industry has spent 30+ years developing its infrastructure, its system capabilities and the technical knowledge to deliver this system. And we think it would be extremely difficult for the government sector to be able to duplicate those services that our farmers and ranchers come to expect of the private sector delivery system.

Mrs. SCHMIDT. Does anybody else want to add to it?

Mr. MCSHERRY. Yes, I would. Thank you.

I would just echo Mr. Weber's comment and probably attribute it to one thing and that is service. We distribute or provide a program at the kitchen table, at the lunch table, at the dinner table, in the combine, on the tractor, in the machine shed from 6:00 a.m. to 9:00 p.m., 7 days a week. Thank you.

Ms. GERDES. I would just add to that if we need new computer equipment in order to explain any item, if we need a new IT system to explain the new farm program and how it interacts with crop insurance, we invest and provide it to our farmers. We invest in education. I probably have done more education on SURE Program and on the ACRE Program to my producers than anyone in the area.

Mrs. SCHMIDT. Thank you.

Mr. Weber, I am going to ask you a follow-up. I believe we all need to continue to work on improving crop insurance. Given our current budget constraints, what do you think are the most significant things we should consider that could improve crop insurance for those crops and regions that have fallen behind? And then I will ask anybody else to add in.

Mr. WEBER. Sure. While the private industry is very proud of the participation levels that we have been able to achieve over the years, we do recognize that there are some areas of the country and some crops where participation levels are less or where the level of coverage purchased is less than what it is in other areas. And the industry has done a lot of work in that area developing new products. You know, as an example, for the 2012 year we had new products in the area of olives, pistachios, and so we continue to roll out new coverages. We continue to work towards enhancing current coverages. I know we have heard the concerns from the peanut growers as an example and the rice growers and we are currently in process of looking at the policy and working to try and increase the enhancement and attractiveness of crop insurance for those growers. But we recognize there is still work ahead of us.

Mrs. SCHMIDT. Thank you.

Anybody else want to add? Mr. McSherry?

Mr. MCSHERRY. Just quickly, I won't repeat what Mr. Weber said but probably the most important piece of that is there are basically three groups involved in the program and we just need to get those three groups together talking, figure out what everybody needs and put a program together to satisfy that need.

Mrs. SCHMIDT. I will give you a very specific example of one of the frustrations of helping these folks. I have been involved in the periphery with the rice growers. They have been trying for 4 years to get a 508(h) product through RMA. And it is held up due to expert reviews, legal reasons, legal reasons that I simply do not understand. Having been through the 508(h) process I can tell you it is torture and it is very difficult to help producers get a product through that.

Mrs. SCHMIDT. Thank you and I will yield back my 3 seconds.

The CHAIRMAN. All right. The gentleman from Illinois, Mr. Hultgren, for 5 minutes.

Mr. HULTGREN. Well, thank you so much. This is a very important topic and I appreciate you being here. And I know these are long days but very important for us as we get ready to address the farm bill. And quite honestly, the most important thing I hear from my farmers in Illinois is crop insurance and how important that is to them, but also what do we do to improve it and protect it? I just have a couple questions.

First of all, I will address one to Mr. Weber and maybe you have touched on this a little bit, but very specifically, what is your view on applying conservation compliance requirements to the receipt of Federal Crop Insurance Program benefits?

Mr. WEBER. Yes, the industry position on the tie to conservation compliance is we feel that that tie ought to remain within Title I. We have concerns about conservation compliance being tied to crop insurance in that it can disrupt coverage, it can eliminate coverage, reduce program participation, and then obviously cause difficulties with the ag lenders when those things happen. Our position is we would highly encourage the Committee to contain the conservation compliance through Title I.

Mr. HULTGREN. Okay. I wonder if each of you maybe could, if you have comments on this, you all understand the situation that we are in and the challenges that we are facing as we step into this work of writing a farm bill in these times. With deficits where they are today, government absolutely needs to tighten its belt everywhere it can. Crop insurance has already done its purpose saving taxpayers more than $12 billion. I wonder, do you believe it would save taxpayers more money in preempting any abuse of insurance if the Risk Management Agency involved agents and companies in the development process of policies and procedures, and if so, why isn't that happening now?

Ms. GERDES. I would welcome the opportunity. We have asked for the opportunity time and time again and sometimes we simply insert ourselves in the process to try and help. We are the ones on the ground working with the farmers and we could preempt a lot of the problems that you all hear when you go out into your districts to visit with farmers. I think it would be a major help.

Mr. MCSHERRY. I would emphatically agree with Ruth on that. We have requested for many, many years to be involved in that process. We think we can bring some important views to the table. We think we can help avert a lot of problems before they become problems. We have had one recent success actually in talking to RMA where we were able to right some anti-rebating language and get that incorporated into the policy handbook. It is now 2012 it is starting to show up on the acreage report. So that was a small contribution that agents were able to make. And is it a fix-all? I wouldn't sit here and say yes but it is a contribution. I think it is a step forward and I think that is what we can bring to the table.

Mr. WEBER. I would also concur with the previous witnesses. We in the industry work hard to try and keep ourselves involved in the process. And if we have I guess a concern or a frustration at times, we feel that the voice that we have in product development and product improvement isn't heard as loudly as it should be. We are concerned with at times the lack of transparency in terms of what is going on with product development within the agency and have a strong desire to be involved in that process to the extent possible.

Mr. HULTGREN. My time is winding down. One more question I would ask if you have a comment, just a brief suggestion. You all have vast experience in this. And I would just ask you to put yourselves in our shoes just for a minute and with the challenges we are facing I am going to start with Mr. Weber. You do understand I mean the budget constraints we are under. I wonder if you could just address one or two things, the most significant things we could do or could be considering to improve crop insurance for those crops in the regions that have fallen behind.

Mr. WEBER. You know, we really don't have a silver bullet in that regard. We feel one area where there is an opportunity for improvement and I believe Ruth touched on it earlier in terms of creating efficiencies between the agencies with data sharing and things of that nature. We believe that because the contractual relationship that we have with the producers and the financial risks that we have involved in the program that the data ought to come through the Federal Crop Insurance Program, be received by us first, and then efficiently pushed towards the Farm Service Agency. That would go a long ways to dealing with a lot of the data reconciliation issues that we have and a lot of the circumstances that Ruth touched on earlier.

Mr. HULTGREN. I am out of time. Thank you very much. But any other suggestions you have, please let us know.

The CHAIRMAN. I thank the gentleman.

The gentlelady from Alabama, Mrs. Roby, for 5 minutes.

Mrs. ROBY. Thank you, Mr. Chairman. Thank you all for being here today and I appreciate the vast experience here where you can help us through some of these issues.

And I want to touch quickly on three things under the current rules. In some situations, a farmer is required to carry a failed crop to harvest and then they end up spending more money than the harvested crop is going to bring. So do you agree that these rules should be examined, and if yes, what are your suggestions on how to change them?

Ms. GERDES. Where I live we have a lot of flooding issues and we will have half of a field gone and half of a field left. And so we deal with failed crops often. I think with failed crops you have to be very careful and very accurate to the area you are working in and make sure that you have something that is sound, does not promote moral hazard. With that said, there is nothing more frustrating as a farmer to have to go through a field with combine and harvest crop that it costs you more to harvest than it does to destroy it. In 2002 we had soybeans make more than our corn did and yet we harvested our crop. It was rather silly.

I think there are ways to address this. My suggestion would be to get agents, companies, farmers, and RMA in a room and hide the key until they work it out.

Mrs. ROBY. Sounds like a good idea. Anybody else want to comment on that?

Mr. MCSHERRY. Just quickly and it goes back to some of my statements earlier. I think if we are involved in the process which we are currently for the most part excluded from issues like that could have resolution.

Mrs. ROBY. And just another issue, should the prevented planting rules be reviewed to allow companies to be more flexible with farmers in deciding whether or not that farmer qualifies for prevented planting?

Mr. WEBER. Prevented planting would be the most, in my opinion, difficult provision of the policy to work with from a company perspective. There is a great deal of subjectivity involved in terms of whether an acre should or shouldn't qualify for prevented planning. The rules oftentimes can be ambiguous and from a company standpoint we think there is a considerable amount of room for improvement in terms of enhancing the prevented planting coverage within the policy.

Mrs. ROBY. Any other comments?

Ms. GERDES. Absolutely. I happen to be one of the people that got prevented planting put in the policy in the late 1980s when we were not able to plant. And prevented planting is difficult. You need to really understand the rules and hopefully we can get those explained to the farmer correctly. It is very ambiguous sometimes and a clearer set of rules would be very helpful.

Mrs. ROBY. Well, any input that you can help provide us with to do that. Double-cropping soybeans with wheat is a common practice in Alabama and the question is should soybean final planting dates be adjusted to accommodate situations where adverse weather such as rain delays the wheat harvest which in turns delays the soybean planting? So if you could address those and if you want to overlay your answer to other similar situations, that would be fine.

Ms. GERDES. Well, I don't have any clients in Alabama.

Mrs. ROBY. I know you don't.

Ms. GERDES. But I believe the best thing to do in these situations is for agents, farmers, and RMA to work closely with agronomists to define what is a feasible option in their area. I know I work with several agronomists all the time that my clients use and that has been enormously helpful in getting some of the changes that we have gotten in our area.

Mrs. ROBY. It goes to the point again that the one-size-fits-all approach isn't going to work when it comes to crop insurance programs because of the way things happen in different parts of the country. Any other comments? I have about 30 seconds? Thank you very much.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentlelady yields back.

The gentleman from California, Mr. Costa, is not a Member of this Subcommittee but has joined us today and I have consulted with the Ranking Member and we are pleased to welcome him to join us in the questioning of the witnesses. So, Mr. Costa, 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman and Ranking Member Boswell, for allowing me to join this important hearing.

First, I would like an opportunity before I question the witnesses to ask unanimous consent to submit for the record testimony of a witness that I had requested. And I will testify you both tried to work with me but it was not possible, but *in lieu of* that I would like to submit——

The CHAIRMAN. Without objection.

[The information referred to is located on p. 2339.]

Mr. COSTA. Okay, thank you very much.

Federal Crop Insurance Program is an essential risk management tool I believe for America's farmers. I think we all believe that. Crop insurance agents are farmers' point of contact with the entire Federal Crop Insurance Program, the agents are and you represent them. And particularly for growers who are involved in specialty crops, the expertise and the effort of insurance agents is critical for completing timely and accurate applications and claim forms and the submissions to some, what, I guess 15 private insurance companies across the country, not only across the country but of course in California.

I would like to address a particular concern about the agent administrative operating allowances and agent commissions that seem to be more problematic at least out in California. The administrative operating allowances paid for by the USDA to the private insurance companies tripled between 2000, 2009 I am told and the average range of commissions per policy had increased significantly during that time I understand. I need to try to figure out how we deal with that.

However, the Standard Reinsurance Agreement that was negotiated in 2010 between the USDA and the Risk Management Agency with the RMA trying to control the growth of these administrative and operating costs has particularly impacted agents out in our area. The Risk Management Agency created an agreement with private insurance companies that imposed a nationwide, across-the-board cap or cut in the administrative and operating payments an agent commissions. It has had a devastating effect on agents and specialty crops in states across the country that focus on specialty crops, especially in California. And while A&O payments continue to rise I understand in program crop states while specialty crop states have experienced double-digit losses because of the administrative and operating cost. I am told, Ms. Gerdes, that you are an expert on all of this so would you please describe the burden placed on specialty crop insurance agents by the arbitrary cap and commissions as it relates to the Standard Reinsurance Agreement.

Ms. GERDES. I guess you are called an expert if you have been around a long time. Mr. Costa, I would first like to say thank you. Thank you for caring enough about this issue to come. Jordan Roach is Vice President of the CIPA agents and he is a California agent and a very good friend of mine. We in Nebraska, Iowa, Illinois don't have a good Federal Crop Insurance Program if it doesn't work in California, Florida for the specialty crops. Jordan has been hurt very, very badly by this SRA and I believe it was an illegal and a bureaucratic overreach of the power of RMA to put that in the SRA.

Mr. COSTA. Because my time is going, is it correct to understand that the caps have never been placed on agents and they are not a party to the Standard Reinsurance Agreement?

Ms. GERDES. Absolutely. And specialty crops are hit very hard because their commodity prices didn't enjoy the great big rise that we have enjoyed in the Midwest. So they got a double whammy.

Mr. COSTA. And so you would say that this agreement is unfair that was negotiated in 2010?

Ms. GERDES. Absolutely.

Mr. COSTA. Don't you think it should be as opposed to put in a cap that the market should be the place to determine what these operating costs, administrative costs are?

Ms. GERDES. Absolutely. And the marketplace will determine based on what Mr. Boswell said in that you need a good crop insurance agent. If you go to a flat fee, you are going to make everybody the same and there is no incentive to do the extra things.

Mr. COSTA. Well, as you know, I have a lot of agriculture throughout my district and throughout California and my family has farmed for three generations. With every conversation that we have had with regards to risk management agencies, the insurance companies, the Congressional offices, we have been told that everyone recognizes that, in effect, the Standard Reinsurance Agreement had a terrible, level of unintended consequences, especially as it relates to specialty crop agents. There is no question that injuries suffered by our members, particularly in those in California but Florida, Michigan, everywhere where they grow specialty crops.

The only question in my mind, Mr. Chairman and the Ranking Member, is whether or not Congress is willing to act to save the program and continue to offer protection for the nation's specialty crop producers. And obviously my time has expired but I thank you for allowing me to participate. I think this is an issue we are going to have to deal with in the reauthorization of the farm bill.

The CHAIRMAN. Well, I would concur. And our opening statement yesterday lead point was don't harm crop insurance. And a tangent of that would be to un-harm crop insurance—that is probably a poorly worded phrase.

But I now turn to the Ranking Member for any comments he has and any last questions he might have, Mr. Boswell?

Mr. BOSWELL. Just a couple things, Mr. Chairman. I will close. I appreciate the comments about specialty crop but I would like to just address the panel. The 2008 Farm Bill coupled 2011 SRA changed the way agents are compensated for delivery of the Federal Crop Insurance Program. Now, they have realized the full impact of these changes. Could you tell us just plain talk how this has impacted your agency?

Mr. MCSHERRY. Yes, I would like to respond to that. And I will use my own agency as an example of the hundreds that are around the Midwest. When I first looked at the new SRA back in 2010 probably December, I do what every other business does—I pull out my income and expense and I try and make projections on what those things are going to look like. I started out in 2011 assuming that I would take a 25 percent reduction in revenue and I started looking at the expense side to see what I could trim to accommodate for that. Obviously, I tried to skip the employee line. No one likes to lay off employees so we did what we could on all the other lines and we felt we came close. As we went through the sales discovery period in February, it was clear that 25 was not going to fairly represent the revenue reduction and we relooked at it and we were looking at more toward a 40 percent reduction in revenue. By the 1st of May I was forced to lay off one of my employees. That is the only line left that would contribute to that. At the end of the day when things were all done, my revenue for 2011 was down 51 percent.

Mr. BOSWELL. Okay. Some have advocated payment limits and additional cuts to the farm program, so based on what you have said I guess a fair question is, in your opinion, what are the consequences of additional cuts and who would be hit the hardest? Anybody?

Ms. GERDES. Additional cuts to the farm programs or additional cuts to crop insurance?

Mr. BOSWELL. Payment limits and additional cuts to farm programs.

Ms. GERDES. Payment limits in crop insurance would have dramatic effects and very drastic unintended consequences that I don't think most people understand. Crop insurance simply cannot sustain any more cuts. It is that simple. Mr. McSherry talked about his office. I need to hire people. I cannot do it. I have gone to part-time help that I don't pay benefits to in order to get the work done. We could create a lot of jobs if we would lift the cap.

Mr. BOSWELL. Anybody else in the panel?

Mr. WEBER. I thought I would just reflect on Chairman Lucas' comments earlier. There is a substantial difference between Title I programs and Title XI programs. You know, it may make sense to have payment limits on Title I programs, but Title XI is insurance and our customers, they pay a premium for that insurance so our industry feels that the programs in the two various titles need to be viewed differently.

Mr. BOSWELL. Well, thank you very much.

Mr. Chairman, I appreciate the panels we have had over these last 2 days. I think we have learned quite a bit and I kind of remember saying too much about being down on the farm but did learn something else I am just going to share it with you.

You know, if it ain't broke, don't try to fix it. So with that, I am just going to stop and thank you for your hard work and yield back.

The CHAIRMAN. Well, I thank my good friend from Iowa. And I was teasing you about establishing your farm *bona fides* but they are well established.

Real quickly, Mr. McSherry, just to make sure the record is clear, when the SRA was renegotiated last year, agents were not at the table and your right of legal redress against the Department was bargained away without you having any input into it at all. Is that an accurate statement?

Mr. MCSHERRY. That is accurate.

The CHAIRMAN. All right. I am not a lawyer; I am a CPA. Maybe I will have to find that lawyer someplace who can help me understand how somebody who is not a party to a contract can have their rights or whatever affected one way or the other. It is an interesting approach by USDA and RMA.

So again I want to thank our witnesses on this panel as well as the ones we have already had. Make sure I get the right words in so that the department chair won't jack me up about this deal.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional and material and supplementary written responses from the witnesses to any questions posed by a Member.

This hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 12:40 p.m., the Subcommittee was adjourned.]
[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY JOE L. OUTLAW, PH.D., PROFESSOR AND EXTENSION ECONOMIST-FARM MANAGEMENT & POLICY, DEPARTMENT OF AGRICULTURAL ECONOMICS, TEXAS A&M UNIVERSITY; CO-DIRECTOR, AGRICULTURAL AND FOOD POLICY CENTER

During the May 16, 2012 hearing entitled, *Formulation of the 2012 Farm Bill (Commodity Programs and Crop Insurance)*, requests for information were made to Joe L. Outlaw, Ph.D. The following are his information submissions for the record.

Insert 1

Mr. HUELSKAMP. And that is one of the other concerns I have, and maybe, Dr. Outlaw, if I could ask you and the other folks to provide for the Committee the cost of production for each of these other commodities for our worldwide competitors, how close we are to those. That has not been part of this discussion at all, what is happening outside of the United States in terms of our ability to compete. Do you have those figures, or each one of you sometime can provide that later to the Committee?

Dr. OUTLAW. We would have to provide them for you, but in essence—well, hopefully Keith knows the answers off the top of his head. I sure don't.

There is not one single source that compares the cost of production across commodities for major producing countries. We developed this answer using information from the popular press specifically related to Brazil, publications from the European Union, USDA–ERS, OECD–FAO, and our own research estimates. The average 2011–12 U.S. average production costs are corn—$3.71/bu, soybeans—$9.40/bu, wheat—$6.44/bu, cotton—$0.95/lb, and rice—$13.10/cwt. Published estimates of Brazilian corn costs would be 18% higher and soybean costs are 16% lower than U.S. estimates. Comparing to the European Union, cereals (includes wheat, barley, and corn) total economic costs are $8.59/bu which are significantly higher than estimated U.S. production costs. Cotton costs of production in South America are generally 20–30% lower than U.S. estimates depending upon the country.

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Mr. COURTNEY. Thank you, Mr. Chairman.

I just have a quick question to follow up. Dr. Outlaw, you mentioned that ethanol policy changes could have an impact on corn prices. Well, there was one change that just happened in January when the tax credit expired. I was wondering if you could give us a little more detail about, first, did that really change much of anything; and second, what policies would you identify or specify that might have an impact?

Dr. OUTLAW. Yes. There has been quite a bit of research done on this issue, and basically most people felt that the expiration of the VTEC was not going to have a big impact on the markets. It is the mandate that has the driving impact. If something happens to the mandate or we—and again, I use ethanol as an example because everyone is aware of it but there could be trade issues we would have within a foreign country that could have just as big of effects. But those are some of the things that I think would change the picture substantially.

Mr. COURTNEY. So the analysis or study that has been done that you mentioned, I mean, have they actually kind of quantified what the impact of repealing the mandate would be?

Dr. OUTLAW. Most of that work actually has, well, a lot of it has come out of Iowa State and maybe a couple of other places, and they have quantified it. I could get those numbers for you but I don't them off the top of my head. There are some pretty recent articles on that.

There have been a couple of studies that address this issue. Both of them support my previous answer that the VTEC had very little impact on corn prices and that the RFS mandate was much more important to corn prices—although still a fairly small factor. One study from Iowa State by Babcock and Fabiosa that was published by CARD and one recent study from FAPRI at the University of Missouri by Thompson, Whistance, Westhoff and Binfield.

In general, the CARD publication titled "The Impact of Ethanol and Ethanol Subsidies on Corn Prices: Revisiting History" provided the following summary. *Corn prices increased by an average of $1.65 per bushel from 2006 to 2009. Only 14¢ (8%) of this increase was due to ethanol subsidies. Another 45¢ of the increase was due to market-based expansion of the corn ethanol industry. Together, expansion of corn ethanol from subsidies and market forces accounted for 36% of the average increase that we saw in corn prices from 2006 to 2009. All other market factors accounted for 64% of the corn price increase.*

As the name indicates, the FAPRI report titled "Renewable Fuel Standard Waiver Options during the Drought of 2012" was aimed primarily at addressing the impact of a proposed short-term elimination of the ethanol mandate. In their discussion, they did address the impact of the policies on corn prices. Their results indicated a relatively small negative impact on corn prices of eliminating the ethanol mandate.

SUBMITTED JOINT STATEMENT BY HON. JOSEPH R. PITTS, MEMBER OF CONGRESS; AND HON. DANNY K. DAVIS, MEMBER OF CONGRESS

We believe that it is important for the Agriculture Committee to know that the current sugar program is responsible for the serious loss of U.S. food manufacturing jobs. Data available from the Department of Commerce indicates that 125,000 jobs have been lost in the sugar-using industry between 1997 and 2010. In our two States of Illinois and Pennsylvania combined, Commerce Department data shows that as many of 25,000 jobs have been lost between 1997 and 2007.

Left unchanged, the current sugar program will continue to hurt American workers by overly restricting the supply of sugar in the U.S. market, thereby excessively driving up the cost of domestic sugar and encouraging the relocation of good American manufacturing jobs to Canada, Mexico, and other foreign countries.

Left unchanged, the current sugar program will continue to hurt American consumers by increasing the price of every product made with sugar. A November 2011 study by researchers at Iowa State University found that comprehensive reform of the Federal sugar program would save American consumers up to $3.5 billion each year. This cost amounts to about $40 per year for a family of four, which is a significant government cost for those families on a tight budget.

Left unchanged, the current sugar program will continue to put inflexible government regulations between buyers and sellers of sugar, making the market less efficient and less able to respond to shifts in supply. The sugar provisions added to the 2008 Farm Bill took away the ability of the Secretary of Agriculture to ensure the U.S. market is adequately supplied with sugar throughout the marketing year, causing unnecessarily tight inventories and thereby artificially raising the cost of sugar dramatically above the already high world market prices for sugar.

Left unchanged, the current sugar program will continue to undermine the ability of our U.S. Trade Representative to open markets to U.S. goods in future trade agreement negotiations. The current treatment of sugar as a "sensitive product" needing special import protection means that every country with whom the U.S. negotiates also seeks to exclude its sensitive products from the prospective trade agreement.

We have witnessed the destructive consequences of sugar policy on employment in our states, and therefore, we now call on the Agriculture Committee to bring about real reform of the Federal sugar program. This Committee should seize the opportunity to reform American sugar policy as part of the 2012 Farm Bill. The sugar program can and should be made more flexible, more market-oriented, less costly to consumers and food companies, less damaging employment, and more compatible with efforts by our trade negotiators efforts to open up export markets for U.S. commodities.

Again, we cite the recent Iowa State University research, which show that real reform of the sugar program would generate up to 20,000 jobs per year in food manufacturing and related industries. For those of us in Congress who are truly serious about creating new jobs, there is no better place to start than reforming the sugar program.

We urge this Committee to reexamine the sugar program with a view of how it affects all stakeholders and consider holding a Congressional hearing on the matter before producing a farm bill. We believe there is a way to balance the need for a safety net for sugar growers with consumers, sugar industry workers, food companies, export-oriented commodity growers, and others that are impacted by the many negative aspects of this program. If the Agriculture Committee fails to undertake significant reform of the sugar program, we will be left with no other option than to offer House floor amendments to the farm bill to achieve sugar policy reform.

Joseph R. Pitts Danny K. Davis

Hon. JOSEPH R. PITTS, Member of Congress;	Hon. DANNY K. DAVIS, Member of Congress.

SUBMITTED STATEMENT BY WADE COWAN, KLINT FORBES, DAVID DICKERSON, WEST TEXAS GUAR, INC.

Chairman Conaway and Members of the Subcommittee on General Farm Commodities and Risk Management—thank you for the time, attention, and thoughtfulness with which you are approaching drafting the House version of the 2012 Farm Bill.

As the future of U.S. farm policy is debated, West Texas Guar, Inc., the nation's only processing facility for guar, and the guar producers that deliver to West Texas Guar, Inc., submit these written comments to you in order to highlight the growing importance of guar and its positive impact on sustainable agriculture and domestically produced energy. Furthermore, West Texas Guar, Inc., and its guar producers, would urge this Congress to adopt a farm policy that is equitable for all commodities and puts U.S. producers on a level playing field with one another.

Concededly, guar is a crop that is often unfamiliar to those involved in production agriculture. However, the guar industry in the United States is growing. Guar is a Nitrogen-rich, drought-resistant legume that is well-suited to the semiarid regions of the United States. As a result, the producers who are currently growing guar and delivering product to our facility are located from the San Joaquin Valley in California, to the Southern High Plains of Texas. Guar is often planted on a rotational basis with other crops, such as cotton or peanuts. Guar is becoming an important tool for sustainable agricultural practices, because of the high nitrogen residue that is left after a guar harvest. In turn, the high nitrogen levels lead to significant soil quality and crop yield improvements.

Today, not only is guar an ingredient in many foods and household products (guar gum), but, harvested guar is also a critical component of more environmentally sound oil and gas fracturing operations ("fracking"). When frack gel is made with processed guar, the need for toxic chemicals in the frack gel is eliminated. Currently, approximately 70–80% of the world's guar is grown in India. But, as domestic oil and gas fracking operations expand, the U.S. guar industry must be prepared to meet the demands of expanding our domestic energy production.

To be sure, there is an increasing demand for guar and guar products. Nonetheless, guar producers face the same risks as other agricultural producers—unpredictable conditions, severe weather events, volatile prices. Therefore, West Texas Guar, Inc. and the guar producers that deliver to West Texas Guar seek practical, sound, risk management tools.

Most producers who are planting guar are often using guar on a rotational basis with more traditional commodities. Therefore, the growing guar industry in the United States echoes, and adds to, the litany of comments you have received this week from commodity organizations seeking a farm policy that is centered on providing a strong safety net for *all* agricultural producers. Simply put, farm policy should not create disincentives for producers who would otherwise follow market signals and elect to grow a different type of crop in a given year. West Texas Guar, Inc. supports a farm bill that treats all agricultural producers equitably.

Farm bill proposals such as the Senate bill jeopardize a farmer's ability to make planting decisions based on the market from year to year. A producer who is contemplating planting guar as a part of his rotational planting system, in lieu of the same commodity he has planted for the last 5 years, may now risk negatively affecting subsequent ARC "safety net" calculations; this is simply detrimental those producers who choose to implement environmentally sound production practices, as well as to the U.S. guar industry as a whole.

Conversely, as was discussed by the Subcommittee during its May 16, 2012 hearing, the guar industry supports a bill that, despite a certain level of complexity, offers a number of risk management and safety-net options for all agricultural producers in lieu of a one-size-fits-all approach. As agricultural producers seek to diversify their operations, Federal farm policy should not preclude those efforts.

Mr. Chairman and Subcommittee Members, thank you for all that you do for agriculture and domestic energy development. We look forward to working with you to provide any information you need as the 2012 Farm Bill develops, to ensure that U.S. guar producers are afforded the same risk-management tools as are available to other U.S. agriculture producers.

Sincerely,

West Texas Guar, Inc.

WADE COWAN,
KLINT FORBES,
DAVID DICKERSON.

SUBMITTED STATEMENT BY LARRY GRAHAM, CHAIRMAN, COALITION FOR SUGAR REFORM

Mr. Chairman and Members of the Committee:

These comments on the sugar program for the 2012 Farm Bill are submitted on behalf of the "Coalition for Sugar Reform," which is comprised of the organizations representing companies who use sugar in their confectionery, bakery, cereal, beverage and dairy product and food manufacturing, as well as business advocacy, consumer, environmental, trade and other organizations that are concerned about the adverse effect of current sugar policy on the U.S. economy.

We are disappointed that the Agriculture Committee denied our request to testify at either of the commodity hearings on May 16 or 17. Similarly, sugar-using companies were denied the opportunity to testify at any the of Committee's field hearings across the country. In fact, we were further denied the opportunity to testify before the Senate Agriculture Committee on the need for sugar program reform. If Congress is truly concerned about jobs, why would it deny an open debate on a sugar program that is negatively impacting the interests of the 600,000 Americans employed by the sugar-using sector?

The Adverse Effects of the U.S. Sugar Program

We want and need strong and healthy domestic sugar producers and processors, but we are deeply concerned about a one-sided sugar program that was made worse by the 2008 Farm Bill, which further restricted the ability of the Secretary of Agriculture to allow in additional sugar imports when needed in the U.S. market. A government sugar policy placing severe restraints on both domestic production and imports has had a devastating impact on consumers and food companies. With the U.S. being a net importer of sugar—needing at least 3 million tons of sugar imports every year—continued protection of the U.S. sugar producing industry is no longer necessary, and is counterproductive to U.S. economic interests.

A November 2011 study entitled "The Impact of the U.S. Sugar Program" examined the impact of the U.S. sugar policy on consumers and businesses, and found that comprehensive reform of the Federal sugar subsidies program would save American consumers up to $3.5 billion a year and generate up to 20,000 new jobs in food manufacturing and related industries. This study was conducted by Iowa State University researchers, who used an econometric model evaluating sugar prices, employment, imports, and exports.

The research also found that sugar program reform would convert the sugar-containing product sector from what is now a net importer—to a new exporter, thus adding to the U.S. employment gain. Creating a more competitive sugar program should be a priority of this Committee, since the Government of Canada has not been shy about promoting the fact that "Canadian sugar users enjoy a significant advantage—the average price of refined sugar is usually 30 to 40 percent lower in Canada than in the U.S." (see attached literature from Agriculture and Agri-Food Canada entitled: "Canada—North America's Location of Choice for Confectionery Manufacturers"). We would like to believe that the Agriculture Committee would be interested in at least discussing reform of a U.S. Government sugar policy that is allowing Canada to claim it is "the location of choice for manufacturers of confectionery products wishing to supply North America."

The U.S. sugar program is a textbook example of the consequences of excessive government intrusion in the marketplace. Tightly controlled supplies by the government have caused historically high domestic sugar prices that have approached as much as twice the level of record world prices. The following is a summary of the implications of a flawed sugar policy:

Loss of U.S. Manufacturing Jobs: Excessively high domestic sugar prices provide a huge incentive to relocate U.S. food processing jobs overseas. A number of factors are used to determine whether or not to relocate overseas, including labor and foreign exchange rates, but the prospect of much lower sugar input costs as a key ingredient provides a powerful incentive to relocate food processing overseas. The last several years have seen several examples of the migration of food manufacturing jobs to overseas locations and there has been a sharp difference in job growth within the food industry, with those segments that use sugar losing jobs, while non-sugar-using segments experienced modest job growth.

U.S. Department of Commerce data indicate that 125,000 sugar-using industry jobs were lost between 1997 and 2010. In light of these tremendous job losses, this Committee has a responsibility to ask whether an alternative program design could mitigate these effects, while still offering protection for producer incomes.

Loss of Trade Opportunities: The current Federal sugar policies are difficult to reconcile with the future direction of international trade policy, and U.S. trade liberalization objectives and obligations. Denial of additional Australian sugar market access in the U.S.-Australia FTA has led to serious adverse consequences that continue to plague other segments of our economy today. In the aftermath of excluding sugar from the Australian FTA, South Korea insisted on and obtained the exclusion of rice from the Korea-U.S. FTA.

In fact, every country with which the U.S. now negotiates seeks to exclude its sensitive commodities from the prospective trade agreement. Many sectors of the U.S. economy that rely on trade are denied export opportunities because of the special treatment that we provide to U.S. sugar growers. Excessive protection of U.S. sugar growers comes at a cost in minimized market expansion for U.S. rice, beef, pork, poultry, corn, soybean, and other commodity exports.

For these reasons, we believe it is time for the Committee to reassess its sugar policy as part of a broader reaffirmation of an open trade agenda for the U.S. Future sugar policy should be redesigned to be more closely aligned with the realities of world trade and promote greater market orientation to the benefit of all of U.S. agriculture.

Cost to Consumers: American consumers would gain up to $3.5 billion a year in savings on a wide variety of food products if the sugar program were reformed. This additional cost amounts to about $40 dollars per year for a family of four, and for those families on a tight budget, this unnecessary expense resulting from a government policy is quite significant.

Cost to Taxpayers: A special feature added to the 2008 Farm Bill requires USDA to buy surplus sugar and sell it to ethanol plants at a loss. Since ethanol plants will not pay more for sugar as a feedstock than they could pay for an equivalent amount of corn, USDA will effectively be forced to buy sugar at the program loan level and sell it to ethanol plant at a fraction of the sugar support price. The Congressional Budget Office has forecasted that this sugar program component will cost taxpayers $193 million over the next 10 years.

Environmental Harm: The Florida Everglades have been seriously harmed by runoff of phosphorous, pesticides and wastewater. Water quality has suffered and nutrients from fertilizer run-off have spurred non-native life, such as cattails, that strangles the food supply of many land and water species. The 400,000 acres of sugar production at the top of the Everglades has disrupted normal water flow, causing problems all of the way to Florida Bay. Clearly, the generous sugar program has promoted the growth of sugar production in sensitive environmental wetlands.

Sugar Program Differences from Other Commodities

Compared to government support policies for other commodities, the sugar program is different in several respects. Two of the most important are import quotas and marketing allotments, both of which affect the availability, timing and control of supplies in the marketplace.

Sugar is one of the few U.S. commodities whose domestic program relies on import quotas (also called tariff-rate quotas or TRQs), which set limits on how much sugar can be shipped to the U.S. every year from each of 40 countries that exported sugar to the United States 30 to 35 years ago. Sugar imports above the relevant TRQ are subject to what is intended to be a prohibitive tariff. For raw sugar imports above the TRQ, the tariff is 15.36¢ per pound and for refined sugar the over-quota tariff is 16.35¢ per pound.

In addition to import quotas, sugar is now the only U.S. crop commodity employing marketing allotments that serve as mandatory supply constraints. Most other program crops had acreage controls until the mid-1990s, but policies were changed in the 1996 and 2002 Farm Bills to meet the challenges of an evolving marketplace and the realities of international trade, including the Uruguay Round Agreement on Agriculture and the North American Free Trade Agreement.

The 2008 Farm Bill also established the feedstock flexibility program, which mandates that in times of surplus, the government must buy sugar and re-sell it to ethanol plants at a loss. Although this program has not been used because of shortages of sugar, when it is used, it will come at the expense of U.S. taxpayers, who as consumers are already paying more for sugar than they should. No other commodity has this program feature.

However, the most startling difference between the sugar program and commodity programs is the dramatic inequity of the benefits provided to sugar growers over other agricultural producers. In 2011, the average sugar grower received an average benefit of $512,000 for the year. In comparison, the average farm operator who received direct payments from the government received less than $12,000 (based on 2009 data).

The Difficulty of Administering Import Quotas

The United States is obligated by the World Trade Organization (WTO) rules to import minimum amounts of both raw and refined sugar. The WTO minimum required import quota is 1,231,484 short tons for raw cane sugar, but only 24,251 short tons for refined sugar. Importing mostly raw sugar helps maintain throughput in our nation's cane sugar refineries, which is important because this part of the sugar industry has been shrinking for many years. However, there are times throughout the marketing year when available domestic sugar inventories are so low that refined sugar must be imported to avoid disruption of food product supply chains.

For the past 3 decades, Congress has burdened USDA with the challenge of determining the quantity and timing of announcing the additional import quotas above the amounts supplied by the WTO minimum import quota and other existing trade agreements. The government supply-control policy has proved to be difficult, if not impossible for USDA to accurately forecast market fundamentals, the effects of nature (*i.e.,* droughts, floods, Hurricane Katrina's idling of a large sugar refinery for several months, *etc.*), a refinery explosion, trade agreements, and consumer trends, to name a few.

The sugar TRQ supply-control tool has increasingly adversely affected the U.S. sugar-using sector, especially after additional constraints were imposed on the flexibility of the Secretary of Agriculture to administer the program in the last farm bill. The 2008 Farm Bill requires USDA to set the TRQ at the WTO minimum at the beginning of each marketing year in October, even if the U.S. is in need of several hundred thousand tons of sugar beyond this amount. Moreover, USDA no longer has the authority to allow in additional sugar imports for the first 6 months of the marketing year (*i.e.,* until April 1) unless there is an "emergency shortage." Unfortunately, historically high sugar prices caused by a government policy designed to severely restrict supplies apparently do not qualify as a trigger to allow much-needed imports.

Despite the best efforts of USDA, the TRQ policy tool is difficult to administer efficiently and effectively and has frequently resulted in market dislocations. For example, in 2010 U.S. supplies of sugar were so tight, that U.S. food manufacturers were forced to pay what was supposed to a prohibitive tariff on 200,000 of sugar imports just to meet their basic needs.

In other instances, USDA has announced several import quota increases for refined sugar, but these quotas were less effective in increasing refined supplies than expected, largely because of problems that are not of USDA's making. For U.S. sugar users, the sugar to make their products needs to be refined to a polarity of 99.8 or 99.9, but U.S. Customs and Border Protection considers any sugar with a polarity of 99.5 or greater to be refined sugar, and therefore eligible to fill a refined sugar quota. The net result is that sugar with a polarity of 99.6 or 99.6 can be imported as refined sugar, which exhausts the available refined quota, but it does not immediately add new refined sugar needed in the U.S. market, since it requires further refining in the U.S. before it can meet normal U.S. manufacturing standards, and be delivered to an industrial sugar user. Thus, USDA's intentions to add refined sugar to the market have been frustrated, with the actual available amount of refined sugar imported under the quotas being less that the announced quota amount.

Another TRQ problem concerns the type of quota that has been established for refined sugar. A portion of the quotas may be entered into the U.S. on a "first-come, first-served" basis, meaning it is open to all origins, but if early-arriving cargoes fill the quotas, then sugar that has not yet arrived will not benefit from the announced TRQ and may be charged the prohibitive over-quota duty if it is imported.

These examples show the problems and limitations associated with the TRQ as a policy tool. If sugar policies were modified, so as to make the TRQ unnecessary or less important, we believe that these particular problems would have been addressed more efficiently and effectively. If a TRQ is still used in the future, we are interested in pursuing administrative or legislative remedies to these and other difficulties of TRQ administration.

Problems with Marketing Allotments

Current U.S. sugar policy requires the Department of Agriculture to manage the domestic supply of sugar though marketing allotments. These legally-binding sales quotas are applied to all domestic sugar processors, and establish the maximum quantity of sugar they are permitted to sell during a fiscal year. USDA is required to administer this policy tool in an attempt to balance the conflicting goals of limiting domestic production, maintaining an adequate balance of domestic beet and cane sugar supplies, meeting import requirements as required by trade agreements, and avoiding forfeitures.

Marketing allotments were enacted in the 2002 Farm Bill at the request of the U.S. sugar growers, in an effort to restrict supplies and raise the prices their customers must pay. Another stated purpose of the allotments is to avoid Federal Government forfeitures that result when sugar price support loans cannot profitably be repaid and the collateral for these loans—raw or refined sugar—is forfeited to the government in settlement of the loan.

Such forfeitures are infrequent, but costly. In fiscal year 2000, about 1 million tons of sugar were forfeited at a taxpayer cost of nearly $500 million. Despite USDA's best efforts, the use of marketing allotments has also resulted in several instances of market distortions, including volatile prices, production limitations and supply shortfalls.

In the past, there have been limited domestic stocks of perfectly good sugar that sellers were willing to sell, and users were willing to buy, but these stocks were "blocked" from the marketplace because of the allotment system. In other words, buyers and sellers of sugar could not come together to consummate a business transaction that was in their mutual interest until they got permission from the government. The result was to exacerbate the already-severe logistical problems that beset sellers and buyers alike, and further limit the availability of sugar to the marketplace.

Even at its best, government usually cannot react as quickly as the marketplace demands, especially in turbulent times when all buyers and sellers are scrambling to match up available supplies with pressing demands. In that kind of environment, it is problematic to have a policy which says it is illegal to sell sugar until the government decides otherwise.

Sugar Policy Changes to the 2008 Farm Bill Made a Bad Program Much Worse

At the sugar lobby's behest, the 2008 Farm Bill established a floor under marketing allotments, so they cannot ever be set at less than 85 percent of estimated domestic sugar consumption, regardless of supply conditions. From a budget standpoint, the 85 percent floor's most significant drawback is that it eliminated USDA's ability to control sugar program costs through marketing allotments.

Instead, USDA would be required to purchase surplus sugar in the open market and resell it to biofuel plants as an ethanol feedstock. These sales will require large taxpayer-funded subsidies because in the U.S. sugar market, sugar cannot compete with corn as an ethanol feedstock on the basis of price.

If USDA had the flexibility to reduce marketing allotments below 85 percent of domestic demand, it would be unnecessary to spend taxpayer funds on sugar-for-ethanol schemes. The burden of storing any surplus sugar would fall on sugar processors—as these processors have continually claimed they preferred.

Eliminating the 85 percent floor would require that the sugar sector shares in deficit reduction along with other crops. Contrary to sugar growers' claims, CBO does not consider the sugar program to be "no net cost," since as previously mentioned it has been assigned a $193 million, 10 year cost.

Final Observations

It our hope that Members of Congress will join us to reform a Federal sugar policy crafted to strangle the supply of sugar and artificially inflate domestic sugar prices well above world market prices. A sugar policy that now pushes U.S. market prices so high that the price support feature of the sugar program is no longer relevant begs the question of whether the loan component is even necessary.

At a time when U.S. farm policy is moving away from intervention in the marketplace and the various commodities are facing program reductions, the Committee should consider similar reforms for sugar growers and processors. We believe the 2012 Farm Bill should fix the inequities in U.S. sugar policy that benefit only a few to the detriment of many. A Federal sugar program designed exclusively for sugar growers and processors to the detriment of the rest of the U.S. economy has very real consequences, including sugar supply shortages, excessively high sugar prices, consumer costs, lost jobs, inhibition of new export opportunities, and relocation of manufacturing facilities overseas.

The next farm bill should feature greater market orientation, which will address these problems.

We are disappointed that the Committee with jurisdiction over the sugar program was unwilling to allow us the customary 5 minutes to testify during its 2 days of hearings on the commodity title, so we could describe the problems caused by the sugar program. However, we would welcome the opportunity to work with the Committee to craft a balanced sugar policy that accommodates the needs of all stakeholders who are affected by U.S. sugar policy.

ATTACHMENT

CANADA'S AGRICULTURE, FOOD AND BEVERAGE INDUSTRY

CANADA

North America's Location of Choice for Confectionery Manufacturers

OH CANADA: HOW SWEET IT IS!

Canada's business environment is among the best in the world. Indeed, given its openness to foreign trade and capital investment, a superb infrastructure and ready access to American and Mexican markets, Canada is the location of choice for manufacturers of confectionery products wishing to supply North America.

The North American Free Trade Agreement (NAFTA) makes Canadian, American and Mexican markets a single trade entity. This provides Canadian-based businesses access to a market of more than 400 million consumers. U.S. markets can be supplied quickly and efficiently, as most Canadian manufacturing centres are less than 90 minutes from the border and 50 per cent of American consumers live within a one-day's drive.

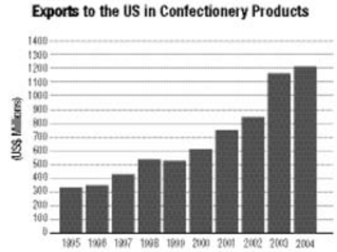
In the last ten years, the value of Canadian exports of confectionery products to the U.S. has increased fourfold, and in 2004, Canada enjoyed a trade surplus of US$700 million.

Moreover, the recent KPMG study, *The CEO's Guide to International Business Costs*, G7-2004 Edition, confirms that Canadian-based food processors, in general, enjoy significant cost advantages compared to their U.S.-based competitors.

Many of the world's largest confectionery firms have established operations in Canada. Many others have chosen to have their products co-packed in Canada, where agricultural inputs and packaging materials are readily available at competitive costs.

Firms seeking to invest in North America should consider Canada first.

Exports to the US in Confectionery Products



Source: Statistics Canada

Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Canada

INVEST IN CANADA

Consider these HARD FACTS

SUGAR REFINERS IMPORT THE VAST MAJORITY OF THEIR RAW MATERIALS AT WORLD PRICES:
Canadian sugar users enjoy a significant advantage – the average price of refined sugar is usually 30 to 40 per cent lower in Canada than in the U.S. Most manufactured products containing sugar are freely traded in the NAFTA region.

SPECIALLY PRICED DAIRY INGREDIENTS:
Confectioners benefit from highly competitive dairy prices administered by the Canadian Dairy Commission (CDC) under five-year agreements with the sector. Details, including administrative requirements, can be found on the CDC Web site, referenced as "Class 5" under the Special Milk Class Permit Program. For more information, visit: www.cdc-ccl.gc.ca.

SKILLED WORKERS AND COMPETITIVE LABOUR COSTS:
Canada possesses a highly skilled workforce known for its loyalty to employers. Canada's average labour costs are lower than in the U.S., which are attributed to Canada's lower salaries and wages combined with Canada's universal health coverage.* In addition, federal and provincial programs provide assistance for training and re-training of employees.

COMPETITIVE ENERGY, LAND AND BUILDING COSTS:
Canadian electricity and gas costs are lower than those in the U.S. and most of Western Europe. Canada's serviced industrial land and factory construction costs are lower than those in most of Western Europe and competitive with those of the U.S.*

LOWEST COST R&D:
Canada's R&D tax treatment is the most generous in the industrialized world. *

IMPORT FOR RE-EXPORT:
Confectioners manufacturing products exclusively destined for export markets may import duty-free ingredients used in the manufacturing process.

* KPMG Competitive Alternatives Study, *The CEO's Guide to International Business Costs*, G7-2004 Edition
www.competitivealternatives.com

Cat No. A22-304/2005E ISBN 0-662-41259-1

For further information about Canada's agriculture, food and beverage industry and investing in Canada, visit Agriculture and Agri-Food Canada's Web site:
www.ats.agr.gc.ca

To find out more about Canada's overall investment opportunities, visit:
www.investincanada.gc.ca

For additional information, please contact:

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Canada

SUBMITTED STATEMENT BY HON. GEORGE D. GREIG, SECRETARY, PENNSYLVANIA DEPARTMENT OF AGRICULTURE

Thank you, Chairman Lucas, Ranking Member Peterson, and Members of the Committee, for the opportunity to provide written testimony regarding the need for efficient and effective risk management tools in the farm bill. Such tools play an important role in providing our nation's farmers with financial security in times of increasingly volatile crop prices, input costs and the threat of natural disasters.

With $5.7 billion in cash receipts and $57 billion in total economic impact annually from production agriculture, Pennsylvania farmers and agribusinesses are the leading economic driver in our state. The dairy industry generates more than $1.6 billion in on-farm cash receipts, which represent about 42 percent of Pennsylvania's total agricultural receipts.

These statistics demonstrate the importance of the 2012 Federal Farm Bill—in particular, the risk management and commodity programs to the future strength and vitality of Pennsylvania agriculture. Without strong commodity programs and crop insurance, natural disasters or downturns in the nation's economy have the potential to cripple states' agriculture economies. Because agriculture is so critical to our commonwealth, it is imperative to take this opportunity to speak to the importance of maintaining strong commodity programs, risk management tools and crop insurance in the next farm bill, offering the following suggestions.

Livestock Gross Margin for Dairy Cattle

With commodity prices becoming increasingly more volatile, risk management is a critical part of any dairy farm's business plan. Livestock Gross Margin for Dairy (LGM-Dairy) is an important tool for dairy farms in Pennsylvania and across the U.S. dairy industry. Dairy producers can purchase an LGM-Dairy insurance policy based on the expected margins (milk price minus feed costs) as a means of adding more predictability to their cash flow. The program offers flexibility, affordability, limited record-keeping requirements, a simplified loss adjustment procedure, and does not prevent a producer from realizing the upside of the market. It is also a workable tool for new and beginning farmers.

As you debate the next Federal farm bill, I urge you to include language that graduates LGM-Dairy from pilot status, making it available as a regular crop insurance program. LGM-Dairy is available in 48 states and is becoming widely recognized by the industry as a valuable risk management tool. Few programs have been as well received. With updated modifications to the program in 2010, the demand for LGM-Dairy now far exceeds its availability. In recent months, the policy sold out in minutes when limited dollars were allocated to the program, resulting in many Pennsylvania producers unable to take advantage of this valuable tool.

Legislative language for other Federal Crop Insurance tools has underwriting capacity levels at "such sums that are necessary." Removing the LGM-Dairy program from "pilot status" and authorizing funding levels for the program identical to the corn and soybean crop insurance programs will provide farm families with a valuable tool to protect their business against the next downturn.

LGM-Dairy becomes even more important if the next farm bill links market stabilization to margin insurance. Small producers must have viable risk management and safety net options if they choose to opt out of the proposal set forth in the Dairy Security Act.

Dairy Policy Recommendations

- *Alternative Risk Management and Safety Net Options for Dairy Producers*—Provisions should be included that allow producers to participate in either the MILC Program up to a cap 3 million pounds per year, or the Livestock Gross Margin for Dairy.
- *Federal Milk Marketing Order (FMMO) Reform*—The farm bill should not mandate a two-class system for pricing. However, the current system should be simplified and the current end-product pricing formula be streamlined through the formal USDA hearing process. Specifically, any "make allowances" and estimated yield factors should be eliminated from the formula.
- *Producer Financial Management Tools*—Even with proposed efforts to reduce margin volatility for producers through changes in milk pricing policy, some volatility in a competitive marketplace will remain. This will mean that producers will see wide variation year to year in their gross revenue streams and annual profits. Therefore, a new program, as recommended by the USDA Dairy Industry Advisory Committee, to offer dairy producers a tax deferred savings accounts would be a valuable financial management tool.

- *Current Programs*—Changes noted above should be done in concert with eliminating the existing Dairy Product Price Support Program and Dairy Export Incentive Program.

Thank you again, Chairman Lucas, and Ranking Member Peterson, and Members of the Committee, for your consideration of the Pennsylvania Department of Agriculture's views on this critical matter and for your service to the United States of America in these challenging times. We urge you to reauthorize the farm bill in a manner that sustains the integrity and effectiveness of risk management and commodity program funding that meets our national needs.

SUBMITTED STATEMENT BY GARRETT SMITH, PRESIDENT, AMERICAN POP CORN COMPANY; ON BEHALF OF POPCORN INSTITUTE

The 2012 Farm Bill Should Not Devalue Acres Currently Planted to Popcorn Nor Dis-incentivize Future Popcorn Production

Chairman Conaway, Ranking Minority Member Boswell, and Members of the Subcommittee: I am Garry Smith, President of the American Pop Corn Company of Sioux City, Iowa. I am submitting these comments on behalf of my company, the Popcorn Institute (representing the firms which contract for, process, and market the great majority of the popcorn grown in the United States), and those thousands of U.S. farmers who grow popcorn as part of their crop rotation.

One of the basic pillars of farm program modifications has been to ensure that those changes do not alter farmer planting decisions or penalize farmers who have followed the rules of the current farm program. We respectfully ask the Subcommittee to ensure that program changes do not disadvantage one commodity *versus* another.

Popcorn is often grown on base acres, just like dent corn and oilseeds. Most farmers grow popcorn under contract, with the price the farmer receives on delivery commonly calculated as a multiple of the price of corn on the Board of Trade. These farmers currently receive direct payments on their base acres, including those planted to popcorn, and are subject to conservation and AGI limitations, just like any other corn/oilseeds producer.

As the Subcommittee knows, direct payments were "decoupled" from the crops actually planted under the 2002 Farm Bill. The farmer received direct payments on his base acreage no matter what he produced on those acres—with the exception of fruits or vegetables. A farmer can grow as much or as little popcorn as he wishes on those base acres—it does not affect his direct payments. A farmer who raises popcorn for the first time on base acres is still eligible for direct payments.

Popcorn acreage has been "considered as regular corn acreage for the purposes of establishing corn base acres on the farm", since 2003. The acres previously planted to popcorn are currently included in the farmer's corn base. There has been some misunderstanding about these modifications to popcorn in the 2002 Farm Bill. Attached to this testimony is a 2003 notice from the Farm Service Agency (FSA) that makes abundantly clear the fact that USDA considered popcorn as eligible for the benefits afforded to other "covered commodities". (FSA Notice DCP–76, issued October 1, 2003, is attached).*

We understand and support the necessity that farm program costs be reduced sharply. We only ask that whatever is done is not punitive to popcorn producers. If "base acres" are ended and replaced by a definition of "covered acres" that leaves popcorn out, the popcorn farmer is hurt two ways:

> First, under the provisions contained in the Senate Agriculture Committee draft, the popcorn producer, while losing direct payments on his acreage counted as corn acres, would be ineligible for any new "shallow loss" coverage on his popcorn acres. His risk of growing popcorn increases sharply. A farmer most likely will reduce or eliminate his popcorn acres and the cost to the consumer (including export markets) of popcorn will increase proportionately.
>
> Second, and very importantly, a farm's current market value is tied to its economic potential. If a farmer who has grown popcorn on part of his base acres loses those acres in the transition, he has immediately lost part of his farm's capital value.

As you know, the Senate's proposed new "shallow loss" program would provide a safety net against revenue losses which are by definition more likely to occur than those covered by the present "deep loss" coverage. If direct payments on base acres

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* **Editor's note:** only pages 1–3, and 8 were attached to the record submission.

now planted to popcorn are replaced by a new "shallow loss" coverage that does not cover popcorn, farmers would lose their incentive to raise popcorn. These acres might then be planted to dent corn, soybeans, or other crops eligible for the new insurance coverage, increasing the total acreage of those crops.

In 2011, American farmers in fifteen states (Colorado, Kansas, Kentucky, Illinois, Indiana, Iowa, Maryland, Michigan, Missouri, Nebraska, New Jersey, Ohio, Pennsylvania, South Dakota and Tennessee) planted approximately 200,000 acres and harvested approximately 860 million pounds of popcorn. Approximately 30 percent of the U.S. popcorn crop is exported, with exports the fastest growing market. These export markets are very important. They depend on our ability to compete with other popcorn producers, most notably those in Argentina (where acreage is rapidly expanding). We will quickly lose export markets if a new farm program increases the cost of growing popcorn and leads U.S. producers to cut back on popcorn production. Once lost, export markets are slow to regain.

A question has arisen whether a "shallow loss" or similar revenue insurance program for popcorn is feasible. We believe the answer, clearly, is yes. There is no difficulty determining yields. The RMA has yield data on popcorn covering 405 counties; for 266 of those counties, essentially where all significant popcorn is grown, the RMA data covers 5 or more years.

What about revenue? While there is no Board of Trade value of popcorn, there is an easy alternative. The RMA has initiated a new "deep loss" revenue insurance program for popcorn this year. Members of the Popcorn Institute have provided a contractor approved by the FCIC with grower settlement data covering 5 years and approximately 70 percent of the U.S. crop, representing all significant popcorn growing counties. From this data the contractor developed, and RMA approved, a conversion factor to convert the Revenue Protection-Spring Projected Price for corn to a value for popcorn. The Pilot Program is in effect for the 2012 growing season.

An alternate solution would be to consider popcorn "equivalent to field corn" in implementation of all aspects of the 2012 Farm Bill. The acres planted to popcorn could be reported as corn and the farm's corn yield applied to those acres. This option would not directly tie a guarantee to actual crop revenue, but would provide some level of insurance to popcorn acres.

We understand that the Farm Service Agency would want to make its own specific guidelines for a program for which it would be responsible. The Popcorn Institute Board of Directors has committed to provide the same data submitted for development of RMA's revenue insurance program, as well as any other desired, to FSA under standard conditions of confidentiality. We are prepared to submit this data to FSA tomorrow.

As the Subcommittee considers changes to the farm bill, we ask that you keep popcorn on par with corn and eligible for any new crop insurance programs. Let's make it possible for America's farmers to include popcorn as part of their diversified cropping systems.

Thank you for your consideration.

ATTACHMENT

UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice DCP-76

For: State and County Offices

**Including Popcorn for DCP Base Acreage
and 2003 Crop Year Fruit, Vegetable, and Wild Rice Exception**

Approved by: Acting Deputy Administrator, Farm Programs

P l G

1 Overview

A Background

The Agriculture Appropriations Act of 2003 (2003 Act), signed by the President on February 20, 2003, provides that:

- acreage planted to, or prevented from being planted to, **popcorn** shall be considered as corn acreage for DCP base purposes
- if a DCP payment yield for corn is established for a farm before adding popcorn acreage, the same yield shall be attributed to the popcorn acreage
- if DCP payment yields have **not** been established for corn on a farm before adding popcorn acreage, the yield attributed to the popcorn acreage shall be established to reflect the DCP corn yield on similar farms.

As a result of these changes, certain owners of farms with popcorn acreage history may elect to use average acreage history attributed to popcorn from 1998 through 2001 to establish DCP bases, as applicable.

Owners have from now until 30 calendar days after publication of the amended regulation to establish or revise base acres and update crop yields, if applicable. The regulations at 7 CFR Part 1412 will be amended. State and County Offices will be notified as soon as the regulation is published.

Disposal Date	**Distribution**
October 1, 2003	State Offices; State Offices relay to County Offices

1 Overview (Continued)

A Background (Continued)

Because of the late inclusion of popcorn as corn acreage for DCP purposes, a special 2003 crop year fruit, vegetable, and wild rice exception will be applied to certain fruit, vegetable, and wild rice plantings.

B Purpose

This notice:

- informs State and County Offices:
  - that 1998 through 2001 popcorn acreage history shall be considered corn acreage for DCP corn base establishment purposes
  - of the yield provisions for popcorn acreage considered as corn acreage for DCP purposes
  - that KC-ITSDO will mail a notification letter (Exhibit 1) on or about April 2, 2003, to owners and producers with popcorn acreage history in any of the 1998 through 2001 crop years that are currently active on a 2002 farm
  - that the statute provides that 2002 and 2003 DCP direct payments for corn base acreage will be issued on or after October 1, 2003, if 1998 through 2001 popcorn acreage is used to establish the corn base on a farm
  - that a 2003 crop year fruit, vegetable, and wild rice exception shall be applied to certain fruit, vegetable, and wild rice plantings on base acreage
- instructs State and County Offices how to handle popcorn acreage in the automated system.

2 Base and Yield Provisions for Popcorn

A Acreage History Credit

The popcorn acreage planted and/or prevented from being planted from 1998 through 2001 shall be considered corn acreage for DCP purposes. Accordingly, owners who elect Base Option 4 will receive a corn base, equal to the sum of the 1998 through 2001 average acreage of the following:

- corn
- popcorn.

2 Base and Yield Provisions for Popcorn (Continued)

B Basic Yield Provisions

Direct and counter-cyclical payment yields for corn on a farm shall be used for popcorn. Accordingly, producers are **not** required to submit production evidence on FSA-658P for popcorn.

Note: See subparagraphs C and D.

C Direct Payment Yields

The direct payment yield for corn on a farm shall be used for the acreage planted to popcorn on the farm.

Note: COC shall assign a direct payment yield according to 1-DCP, subparagraph 103 B if a PFC corn yield did not exist and a direct payment yield has not already been established for a farm.

D Counter-Cyclical Payment Yields

The counter-cyclical payment yield for corn on a farm shall be used for the acreage planted to popcorn on the farm. If the production for a crop year is production from:

- popcorn only, COC shall assign **production** based on the actual corn grain yields of 3 or more similar farms for the specific year, according to 1-DCP, paragraph 137

  Note: The assigned production is not limited to the county average yield.

- both corn and popcorn, County Offices shall determine the total production (corn and popcorn) for the specific year, based on the actual production yield of corn, and enter the total production in the automated system according to 1-DCP, paragraph 613.

  Example: Producer submits 12,000 bushels production evidence for 80 acres of corn, which is 150 bushels per acre. The producer planted 60 acres of popcorn in the same year. The total amount of production to enter in the automated system is 21,000 bushels, which is the sum of the corn (12,000 bushels) and 9,000 bushels (popcorn acreage [60] times corn yield [150]).

E 2002 and 2003 DCP Direct Payments

The statute provides that if 1998 through 2001 popcorn acreage is used to establish the corn base on a farm, 2002 and 2003 DCP direct payments for corn base acreage shall not be issued until after October 1, 2003. See paragraph 7 for instructions on handling popcorn in the automated system.

7 Handling Popcorn in the System (Continued)

A Overview (Continued)

Producers can elect to not receive payments on the farm with popcorn until after October 1, 2003. If all producers on the farm with popcorn elect to not receive payments until after October 1, 2003, the provisions in this paragraph do not apply. The County Office will complete the base and yield election including the popcorn acres and no payments will be issued on the farm until after October 1, 2003.

B Base and Yield Election With Payments

The following table provides the steps to take for a farm with popcorn acres included in the corn base:

- that already has a base and yield election
- payments have been issued.

Step	Action
1	**Do not** cancel any payments.
2	Follow procedure in 1-DCP, subparagraph 636 E to back out the base and yield election.
3	Follow procedure in 1-DCP, Part 12 to do a new base and yield election that will capture all popcorn acreage.
4	Print and have the producer(s) sign the new CCC-509, but **do not** approve CCC-509.
5	Ignore the overpayment that will occur as a result of not having an approved CCC-509.
6	After October 1, 2003, CCC-509 that includes the popcorn acres can be approved and paid as normal.

SUBMITTED STATEMENT BY AMERICAN SUGAR ALLIANCE

On behalf of American producers, processors, and refiners of sugarbeets and sugar cane, we thank the Committee for the invitation to submit testimony regarding the development of the 2012 Farm Bill. Our industry generates more than 142,000 American jobs in 22 states and nearly $20 billion per year in economic activity.

The sugar policy in the 2008 Farm Bill has been a resounding success for American consumers and taxpayers. It has helped to ensure reliable supplies of high-quality, safe, responsibly-produced sugar at reasonable prices and at zero cost to American taxpayers.

In addition, sugar policy has provided American sugar producers an economic safety net and the opportunity to survive. Absent the safety net assurance, banks would be reluctant to lend to sugar farmers and processors and, without operating capital, producers' ability to survive would be severely threatened.

We ask that U.S. sugar policy be extended in the 2012 Farm Bill. The policy has run at no taxpayer cost for the past 10 years, is operating at zero cost this year, and, according to the latest USDA baseline projections, will run at zero cost through the next 10 years.

Background

Impact of 23 Years of Low Prices. From 1985 to 2008, the U.S. sugar support price was unchanged at 18.00¢ per pound of raw cane sugar. Market prices were essentially flat through that entire period. Corrected for inflation, the price producers received for their sugar plummeted 50% over those 23 years (*Figure 1*).

The impact on American sugar producers was profound. From 1985 to 2008, more than ½ of all U.S. sugar cane mills and refineries and sugarbeet factories closed—53 operations in all; there has been only one closure since 2008 (*Figure 2*). According to LMC International, the industry has shed 109,000 jobs just in the past 19 years (*Figure 3*).

All previous owners of, or investors in, independent beet-processing companies exited the business because of the low prices and high risks. Sugarbeet growers, desperate to save their investment in beet planting, cultivating and harvesting equipment, organized cooperatively and purchased the processing plants—literally mortgaging their farms to do so, in many cases.

Today, 100% of all beet processing capacity and about 90% of U.S. cane sugar refining capacity is owned by growers or employees. This kind of financial investment makes our growers extraordinarily dependent on the stability of the U.S. sugar market and on a strong safety net, both of which the farm bill helps to provide.

Jobs. Despite the job loss, the U.S. sugar industry remains large, dynamic, and important. We are the world's fifth largest sugar-producing country.

LMC estimates that the industry generates 142,457 jobs nationally, many of these in rural areas where sugar is the most vital element of the local economy. The industry pays $4.2 billion in wages annually—at union rates or better—and generates $19.5 billion in value-added revenue each year (*Figure 3*).

Efficiency. We are good at what we do. Otherwise, we would not be here.

We are justifiably proud that American sugar producers adhere to standards for labor and environmental protection and for food safety that are among the highest in the world. Despite these daunting added costs, we are among the lowest-cost sugar producers in the world.

Globally, we are lower-cost than 70 of the 95 sugar-producing countries or regions. Our beet sugar producers are the lowest-cost beet sugar producers in the world (*Figure 4*). The U.S. average cost of producing sugar is 11% below the world average (*Figure 5*).

Historically, our more efficient U.S. producers cannot compete against higher-cost producers whose industries enjoy a broad spectrum of support and protection by their governments, and whose surpluses are dumped below cost on the world market. Attached is a table highlighting the subsidies and other government interventions in major sugar producing and consuming countries (*Appendix*). U.S. sugar policy is a necessary response to the unfair foreign trade practices that threaten our more efficient producers.

Open Market. We are the world's largest sugar importing country—more open to foreign sugar than any other major sugar producer (*Figure 6*). In recent years, we have imported an average of 30% of our needs.

Under NAFTA rules, we have provided Mexico unlimited duty-free access for its sugar since January 1, 2008. The U.S. has honored this commitment, despite the fact that the government of Mexico expropriated ½ of Mexico's sugar mills in 2001, rather than allowing them to fail. The government still owns and operates ⅕ of Mexico's mills and is that country's biggest sugar producer and exporter.

Mexican sugar exports to the U.S. have soared from as little as 7,000 metric tons per year prior to 2008 to nearly 1,600,000 metric tons last year—about 15% of U.S. sugar consumption (*Figure 7 (1 metric ton = 1.1023 short tons)*). Since portions of the Mexican market are still in transition from sugar to corn sweeteners, still more sugar could be freed up for export to the U.S. in the future.

In addition, the U.S. complies with WTO rules in providing duty-free tariff-rate-quota (TRQ) access for 40 countries every year, at not less than 1.3 million short tons per year, whether we need the sugar or not. We also provide duty-free access for specific volumes under the CAFTA and other bilateral free trade agreements (FTAs).

Consumer Benefits. American consumers get a great deal on sugar. A May 2012 global retail sugar survey by SIS International Research examined retail refined sugar prices in 24 countries, representing 60% of global sugar consumption. SIS found that:

- Grocery store shoppers in the rest of the developed world pay 24% more for sugar than American consumers do.
- Globally, even taking major developing countries into account, consumers around the world pay, on average, 14% more for their sugar than American consumers do (*Figure 8*).

Sugar is still given away for free in restaurants and coffee shops, and sugar costs account for only about 3% of the retail price of a candy bar (*Figure 9*). If asked, few consumers can even guess the price of a pound of sugar. This is the way it should be: Reliable sugar supplies at reasonable prices and a non-issue for American consumers.

Food manufacturers have continued to prosper. There are press releases and news reports virtually every week about strong profit statements and expanding operations in the food manufacturing sector.

The candy industry has complained about job losses, but this is not about sugar policy, sugar prices, or declining production. In fact, according to U.S. Census data, U.S. candy production has been rising steadily—up 9% just since 2004 (*Figure 10*).

Job losses in the candy industry, while regrettable, are the result of increased productivity, *not* decreased production. This is an industry that is flourishing, with rising production, efficiency, and profits, plus new plant openings and expansions. We are pleased that our candy company customers are doing well.

Regrettably, some candy companies have moved some operations to foreign countries, such as Mexico. This is not because of sugar prices, which are roughly the same in Mexico as here, but for savings in a host of other costs, such as wages, health insurance and other benefits, taxes, and environmental compliance. For example, one candy company fled average wages in Pennsylvania of just under $19 per hour to open a plant in Monterrey, Mexico, where average wages are a mere 51¢ per hour (*Figure 12*).

An examination of the last prolonged period of stable, or declining, producer prices for sugar shows that end-use consumers have not benefited as much as they might have, if at all. According to USDA data, for a nearly 2 decade period of 1990 to 2007, wholesale refined sugar prices (the price grocers and food manufacturers pay for sugar) dropped by about 20 percent. How much did consumer prices for sugar and products fall? Not at all. In fact, retail prices *rose:* refined sugar by about 20 percent and sweetened products such as candy, ice cream, and baked goods by 30–60 percent (*Figure 11*).

Price Recovery, 2009–2011. World sugar prices soared to 30 year highs during 2009–2011. This was for a variety of reasons completely unassociated with U.S. sugar policy—mainly, the WTO-mandated reduction in sugar exports by the European Union and production problems in major producers such as India, Brazil, and Australia. The production setbacks, in the face of strong sugar demand, caused a steep drop in global sugar stocks.

As in every other country, U.S. sugar prices rose. And in the United States, as in other countries, domestic prices are consistently higher than the so-called world sugar market, which is mainly a dumping ground for the surpluses of heavily subsidized producers.

Over a 20 year period, 1988–2008, the world average cost of producing sugar averaged a staggering 51% higher than the world market price (*Figure 13*). This begs the question: How could the world's sugar producers survive when the prices for their product are so much less than their production costs?

The answer is that not much sugar is actually sold at the "world price." In order for sugar producers to survive, most governments maintain prices for their own producers that are well in excess of the world price. According to data from the International Sugar Organization, wholesale prices in the major countries that account for half of world sugar consumption averaged a whopping 64% higher than the world price during 2003–2011 (*Figure 14*).

In the United States, as in other countries, domestic prices have moved up with world price increases. However, the price rise in the United States has not been as great. With the stability offered by U.S. sugar production and the U.S. willingness to import additional foreign sugar when needed, American consumers have been paying only about 29% more for their sugar during a period, from 2008 to 2011, when world prices have doubled, or more (*Figure 15*).

The 2009 domestic price recovery came at a critical time for American sugar producers. Sugar operations had been closing at an alarming rate because of the steadily declining real prices, jobs were being lost, and beet and cane plantings were declining.

The acreage problem became severe in 2008 when prices for competing crops such as wheat, corn, and soybeans rose sharply. Beet acreage plummeted by 19%, even despite the cooperative structure of the industry. With the recovery of sugar prices during 2009–11, sugar could again compete with other crops for acreage. It is worth noting, however, that while the sugar price recovery during 2009–11 was significant, it was far less dramatic than the increase enjoyed by other major crops. For example, corn prices more than tripled from 2005 to 2011, and wheat and soybeans price more than doubled, while sugar prices rose by 79% (*Figure 16*).

Producer Prices Again Decline, Consumer Prices Do Not. Unfortunately for American sugar producers, prices have been declining again for nearly the past 2 years. Since August 2010, raw cane sugar prices have declined by more than 12% and wholesale refined sugar prices by nearly 20%. But American consumers have seen no benefit: Prices for refined sugar on the grocery store shelf have shot up 18% over the same period, and retail prices for highly sweetened products such as baked goods, candy, and ice cream are all up 4–15% (*Figures 17–18*).

Food manufacturers argue American consumers are being harmed by U.S. sugar producers. In fact, American consumers are being unnecessarily harmed by the food manufacturers, intent on reducing input costs, raising consumer prices, and increasing corporate profit margins.

U.S. Sugar Policy

U.S. sugar policy in the 2008 Farm Bill retained a non-recourse loan safety net and the inventory management approach that has long been successful, with no payments to producers and the goal of zero taxpayer cost. In the interest of managing supply, USDA sets a "marketing allotment" for producers at not less than 85 percent of domestic consumption.

The balance of consumption is met by imports, with unlimited access for Mexico, plus specific volumes of minimum import access requirements under the WTO, CAFTA, and other FTAs. When it appears that imports from these avenues may not be sufficient, USDA announces tariff rate quotas (TRQs) for additional duty-free imports.

There is no restriction on the number, nor the size, of USDA TRQ increases. USDA has announced fourteen TRQ increases, totaling more than 2.4 million tons, for the marketing years since the 2008 Farm Bill began—these in addition to WTO, CAFTA, other FTA, and Mexico imports (*Figure 19*).

Imports now fulfill about 30% of U.S. needs and developing-country sugar exporters to the United States, organized as the International Sugar Trade Coalition, are strong supporters of U.S. sugar policy.

Unless there is a supply emergency, the additional TRQs are not announced before April 1 of the October–September year. Market supplies are well in excess of demand during the first half of the year, when, on average, 84 percent of U.S. production and 70 percent of Mexican production occurs.

The so-called April 1 provision has not measurably limited supplies during the first half of the marketing year. In addition to most of U.S. and Mexican sugar production occurring during October–March, less than ½ of U.S. sugar demand occurs during that period and nearly ½ of all imports enter. As a result, supplies have exceeded demand overwhelmingly, by an average of 50%, during October–March (*Figures 20–22*).

If U.S. producers produce more than their marketing allotment, they must store the excess *at their own expense,* not the government's.

If imports exceed U.S. needs, the government is obligated to remove the surplus sugar from the domestic food market, most likely selling it to ethanol producers. USDA, however, does not expect any such purchases to occur over the next 10 years.

Since 2008, U.S. production has *not* exceeded the marketing allotment levels and imports have *not* exceeded needs. The policy has run at zero cost to U.S. taxpayers, as it had since 2002, and is now projected to continue to do through 2022, at least.

Another important reason the current program is vital to U.S. sugar producers is that crop insurance policies do not provide an adequate safety net for many of our producers. Cane policies are not affordable or available at high enough coverage levels to protect farmers and USDA has yet to approve a cane policy in Hawaii.

Conclusion

U.S. sugar policy has been a resounding success during the 2008 Farm Bill and deserves to be extended.

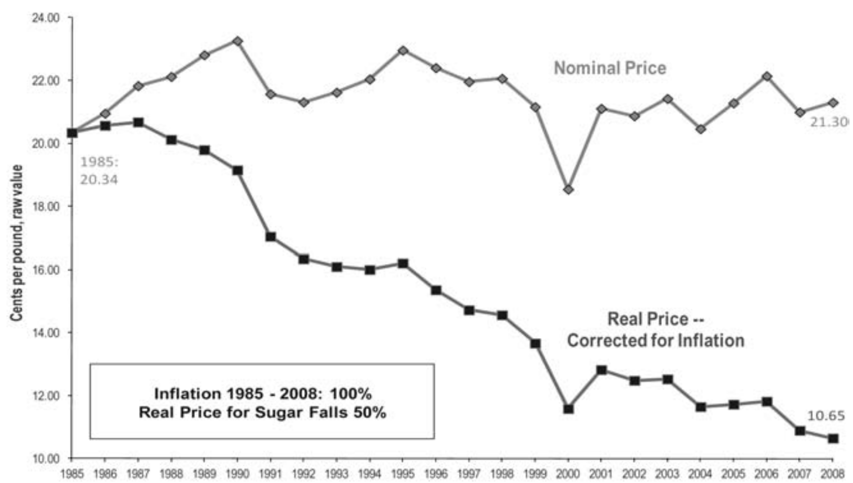
It has achieved its goals of providing reliable supplies of high-quality sugar at reasonable prices, and a critical safety net for producers. It has done so without government expenditure. Furthermore, if extended, USDA predicts zero expenditures through 2022.

American sugarbeet and sugar cane farmers are united in recommending to the Committee that it continue current U.S. sugar policy in the 2012 Farm Bill.

CHARTS

Figure 1

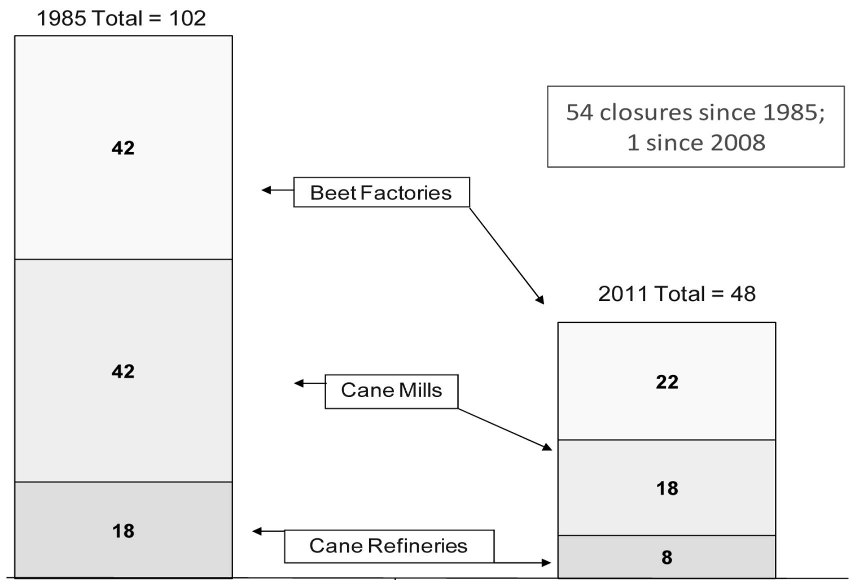
U.S. Raw Sugar Prices, Nominal and Real, 1985–2008



Data Sources: BLS–CPI–U. USDA: Price delivered New York, duty-fee paid; annual averages 1985–2008.

Figure 2

Since Last Sugar Loan Rate Increase in 1985: More Than Half of U.S. Sugar-Producing Operations Have Shut Down



Source: American Sugar Alliance, June 2011.

Figure 3

Comparing the Economic Impact of the Sugar Industry in 1993/94 With Today

(LMC International, August 2011)

	1993/94	2009/10	% Change
Jobs (full time equivalent)			
Direct Employment	68,264	39,958	-41%
Direct, Indirect and Induced Employment	251,587	142,457	
Value added (million dollars)			
Direct	4,621	8,404	82%
Direct, Indirect and Induced	10,706	19,474	
Wages paid (million dollars)			
Direct	1,364	1,172	-14%
Direct, Indirect and Induced	4,862	4,178	
Productivity			
Sugar production (million tons)	7.65	7.97	4%
Tons of domestic sugar per employee (excludes refining jobs)	119	216	80%

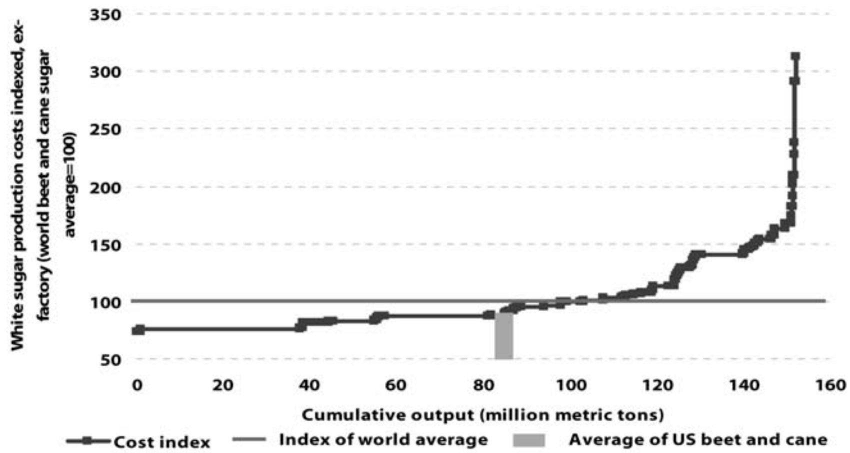
Figure 4

U.S. Costs of Production Ranking Among World's Sugar Producers, 2010/11

	Number of producing countries/regions	US rank
Beet sugar	35	1
Cane sugar	61	35
All sugar	95	20

Figure 5

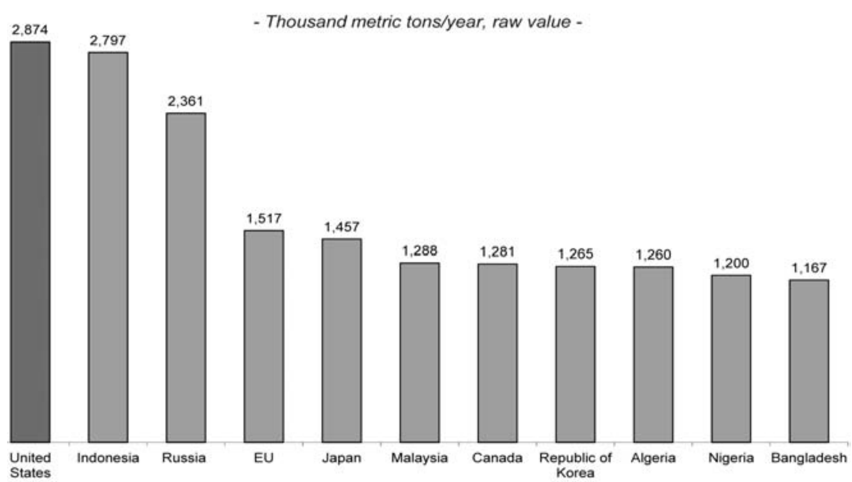
Cumulative Cost Curve, World Average Sugar Producers, Average 2010/11—Average of U.S. Beet and Cane



U.S. combined beet and cane was 11% below world average cost of production for 2010/11.

Figure 6

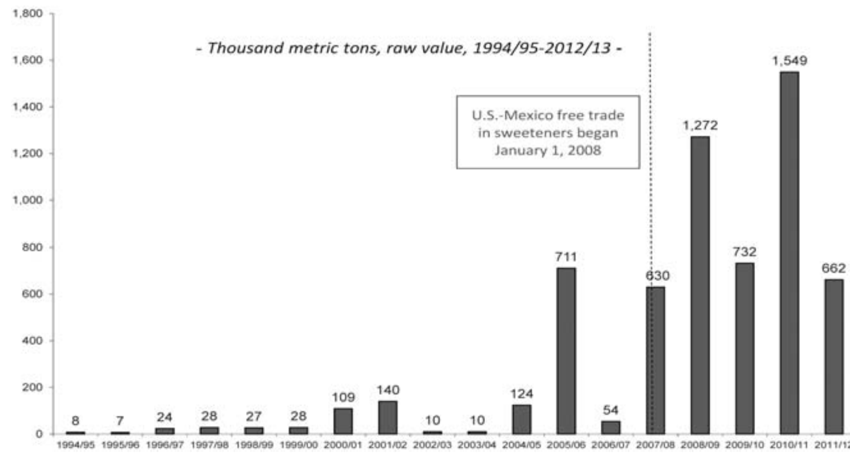
United States: World's Leading Sugar Importer 2008/09–2010/11 Average



Source: USDA/FAS, November 2011; Net imports.

Figure 7

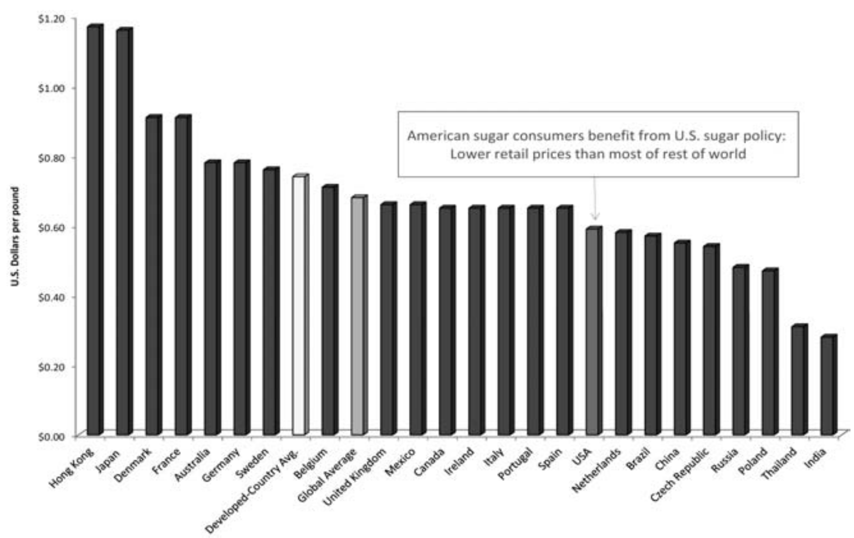
U.S. Sugar Imports from Mexico: Huge Year-to-Year Variability



Source: USDA, WASDE. 2011/12 = forecast.

Figure 8

Developed-Country Average Retail Sugar Price: 24% Higher than U.S.; Global Average: 14% Higher than U.S.

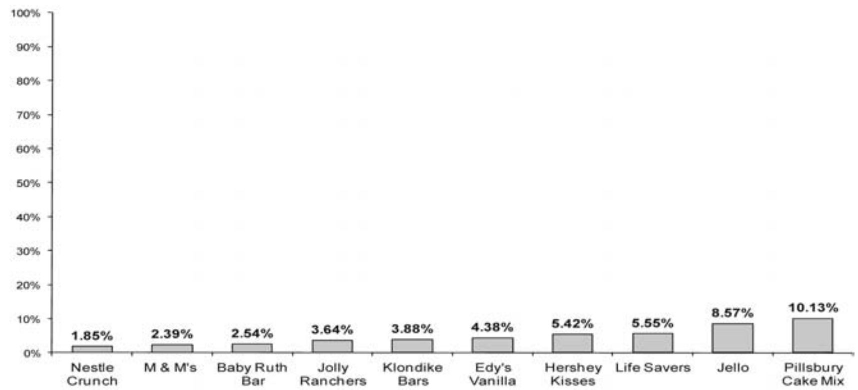


Source: SIS International Research, "Global Retail Sugar Prices," May 2012, from Euromonitor, International Monetary Fund; 2011 prices.

Surveyed countries represent 60% of global sugar consumption. Developed countries include OECD member countries and Hong Kong.

Figure 9

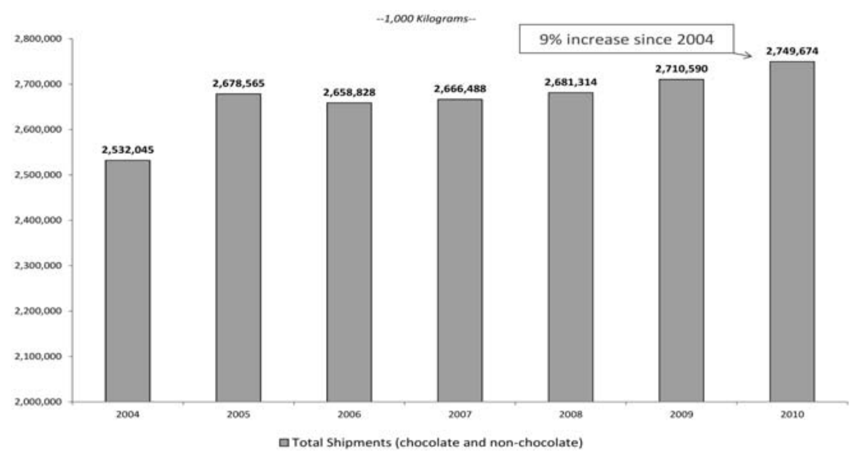
Sugar Cost as % of Retail Product Price—Sugar Share Mostly Insignificant—



Source: American Sugar Alliance survey of retail products at a Safeway store in Arlington, VA, and *Safeway.com* June 2010.

Figure 10

U.S. Chocolate and Non-Chocolate Confectionery Production: Industry Thriving, Production Rising



Souce: U.S. Census, June 2011. *http://www.census.gov/manufacturing/cir/historical_data/ma311d/index.html*.

Figure 11

Price Changes 1990–2007: Wholesale Sugar Down But Retail Sugar and Sweetened Products Up

Sources: Wholesale Sugar—USDA. Retail Products—Bureau of Labor Statistics. Annual averages.

Figure 12

Operational Costs for Confectionery Industries In North America

Items	Unit	United States Middle Atlantic States[1/]	Canada Ontario- Quebec	Mexico Border with United States
Hourly Wages[2/]	*$/hr*	$18.78	$10.20	$0.51
Commercial Facility Rental[3/]	*$/sq/ft/yr*	$5.00	$6.38	$4.65
Health Care -- Employer cost	*$/yr/worker*	$7,680	$1,551	$258
Taxes, Total[4/]	*%*	19.10%	36.30%	26.60%
Electricity[5/]	*cents/kWh*	6.6	3.0	8.0
Sewage	*$/1,000 gal*	$7.04	$3.27	$1.00
Sugar[6/]	*cents/lb*	28	21	23

[1/] Focus on Reading, Pennsylvania; Chicago costs substantially higher -- rentals at $80/sq/ft; taxes at 42%.

[2/] Wages only. Workers in all countries receive additional benefits such as health insurance and paid vacations. Government mandated benefits in Mexico increase effective wages to an estimated $1.08/hour.

[3/] Includes property taxes, insurance and maintenance fees.

[4/] Total of federal, state or provincial, and local. Percent of income. Services provided by the government for taxes in Mexico minimal compared with U.S. and Canada.

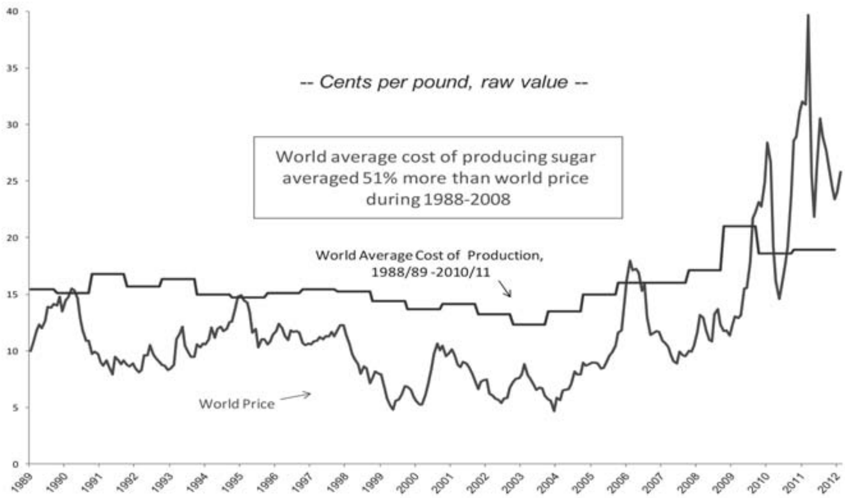
[5/] Cents per kilowatt hour. Canada rate low because of government subsidization and investment in hydroelectric power.

[6/] Average prices of past several years; current prices somewhat higher. Mexico maquiladora (free trade zone) price; Mexican market actual prices much higher, at about 30 cents.

Source: Buzzanell & Associates, Inc., "*The Confectionery Industries in the U.S., Canada, and Mexico: Trends in Structure, Domestic Production and Use, Trade and Cost Comparisons,*" August 2009.

Figure 13

World Sugar Dump Market Price: Historically Does Not Reflect Actual Cost of Producing Sugar

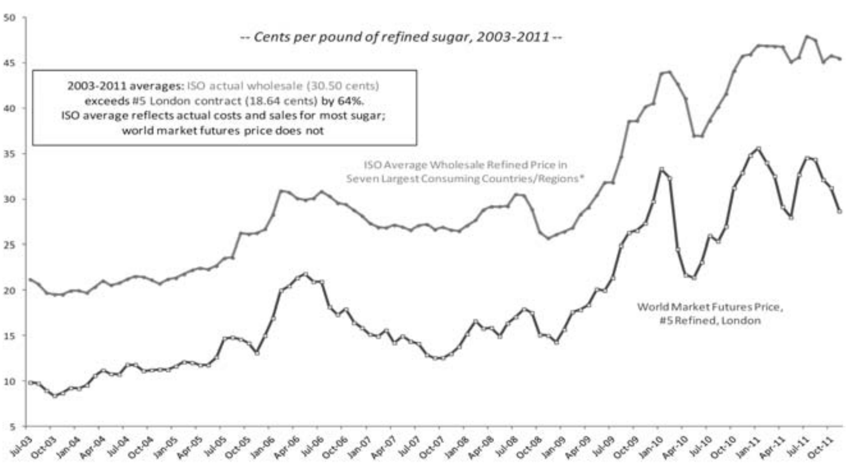


Sources: Price—USDA, New York Board of Trade/ICE, Contract #11, raw cane sugar, stowed Caribbean port; Monthly average prices through Feb 2012.

Cost of Production—"Sugar Production Costs, Global Benchmarking 2011 Report," LMC International, Oxford, England, September 2011.

Figure 14

Actual Wholesale Sugar Prices in Major Consuming Countries Much Greater than World Dump Market Price

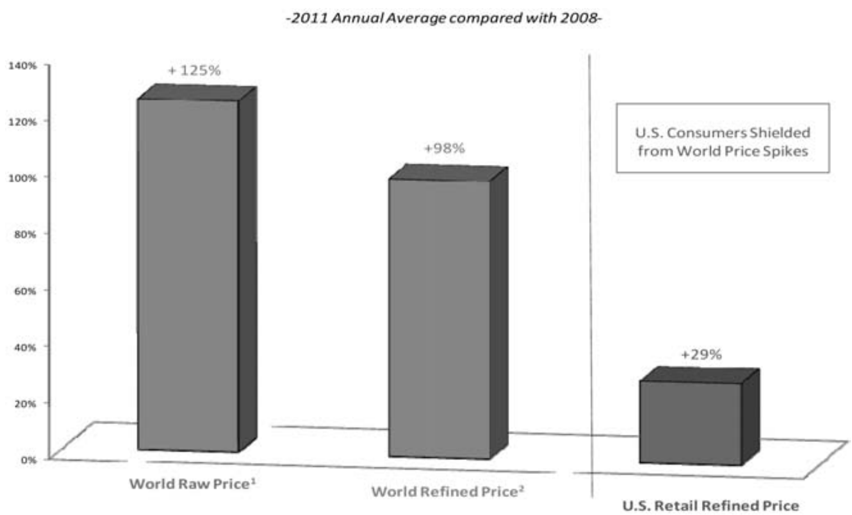


Data Sources: International Sugar Organization, U.S. Department of Agriculture

* Brazil, China, European Union, India, Mexico, Russia, United States—represent approximately ½ of world sugar consumption.

Figure 15

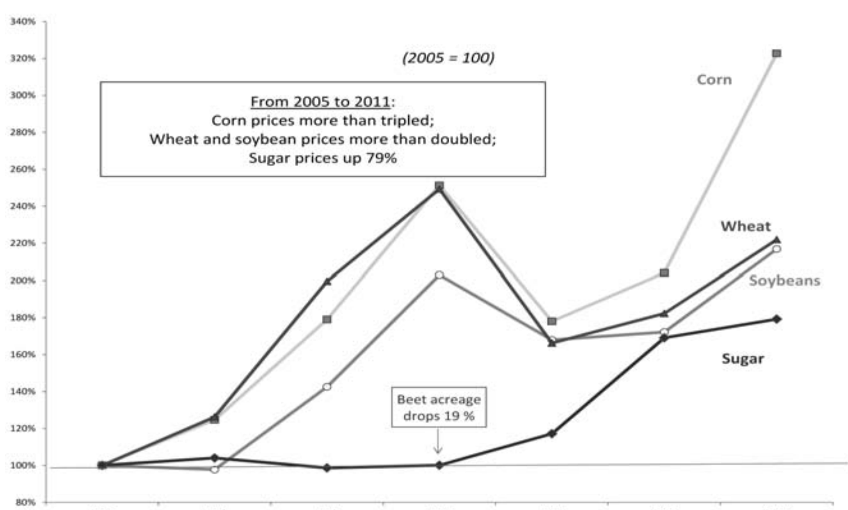
Since 2008: World Market Sugar Prices Increase Far More Than U.S. Price



Data Sources: USDA; U.S. Bureau of Labor Statistics.
[1] Raw cane sugar, #16 contract, Caribbean ports.
[2] Refined sugar, #5 contract, London.

Figure 16

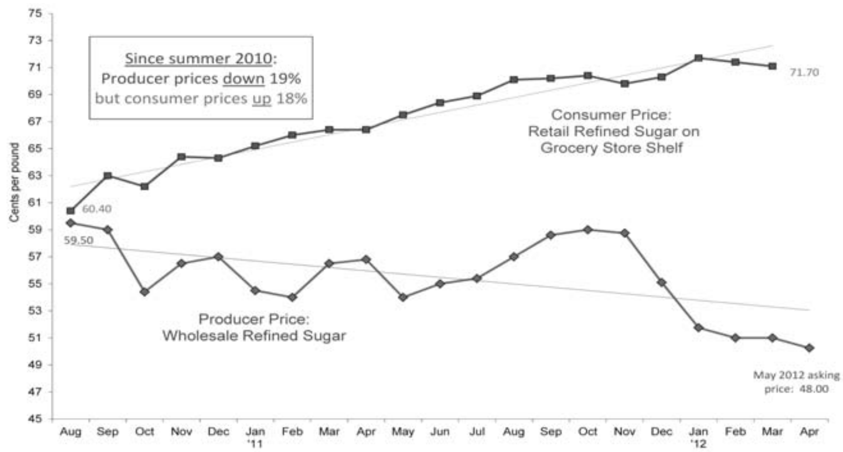
Changes in U.S. Commodity Prices Since 2005



Source: ERS/USDA, U.S. raw sugar #16. Chicago Board of Trade nearby futures, Corn #2 yellow; Soybeans, #1 yellow, and Wheat, #2 soft red. Annual average prices.

Figure 17

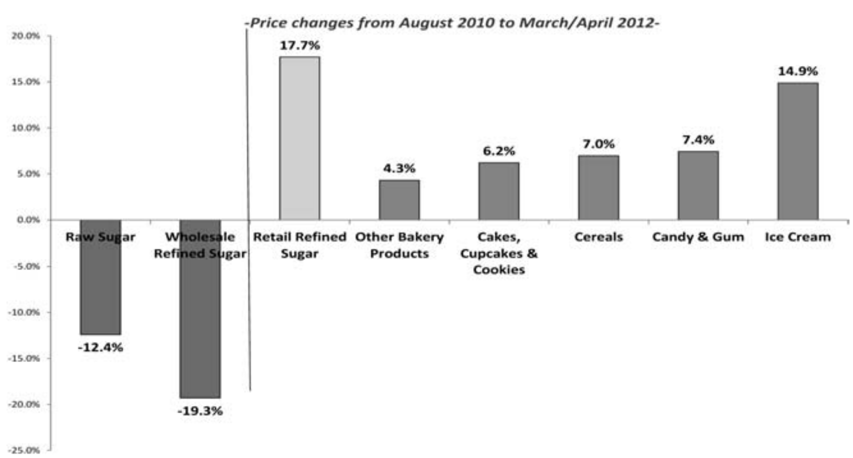
Consumers Do *Not* Benefit When Producer Prices for Sugar Fall; Gap Widens Over Past Two Years



Data: USDA/ERS, Monthly average prices, August 2010–present. Linear Trendlines.

Figure 18

Producer Prices for Sugar Fall, But Retail Prices for Sugar and Sweetened Products Rise



Sources: ERS/USDA, Sugar Briefing Room. Raw Sugar—*http://www.ers.usda.gov/Briefing/sugar/Data/Table04.xls*. Refined Sugar—*http://www.ers.usda.gov/Briefing/sugar/Data/TABLE05.XLS*. Retail Sugar—*http://www.ers.usda.gov/Briefing/sugar/data/Table06.xls*. Sugar-Containing Products—*http://www.ers.usda.gov/Briefing/sugar/data/Table11.xls*. May 2012 producer prices: 30¢/lb, raw; 48¢/lb, refined.

Figure 19

U.S. Sugar TRQ Increases Since Start of 2002 Farm Bill (short tons, raw value)

-- In addition to WTO and FTA minimum imports of about 1.5 million tons --

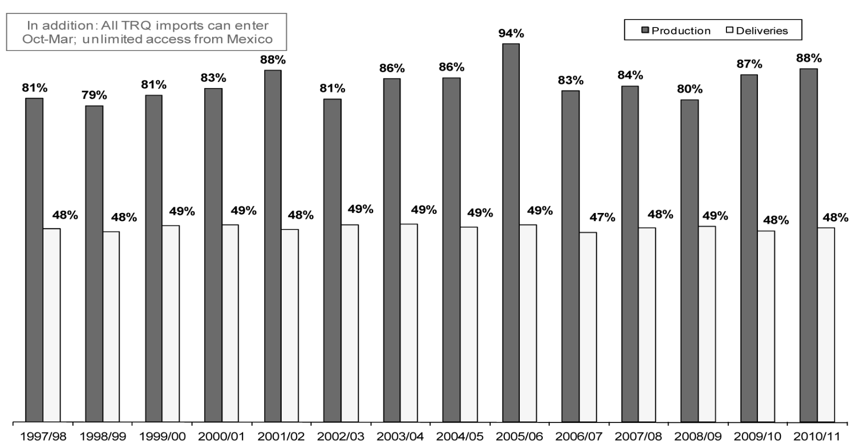
Fiscal Year	Date	Raw Sugar	Refined Sugar	Specialty Sugar	Total
2007/08	7/27/2006				193,000 [1]
	8/17/2007			70,000	70,000
					263,000
2008/09	8/6/2008		300,000		300,000
	9/22/2008			80,000	80,000
					380,000
2009/10	10/6/2009			75,000	75,000
	4/23/2010	200,000			200,000
	7/6/2010	300,000			300,000
					575,000
2010/11	8/17/2010			85,000	85,000
	4/11/2011	325,000			325,000
	6/21/2011	120,000			120,000
	8/2/2011			10,000	10,000
	9/30/2011		150,000		150,000
					690,000
2011/12	8/2/2011			100,000	100,000
	4/18/2012	420,000			420,000
					520,000
TOTAL					**2,428,000**

[1] For Mexico, not specified raw or refined. 2007/08 amount for entry Oct-Dec 2007.

Data Source: USDA. U.S. sugar tariff-rate quota (TRQ) increases above the approximately 1.5 million short tons of required World Trade Organization (WTO) and free trade agreement (FTA) imports each year (WTO raw, 1.231 mst; WTO refined and specialty, ~120,000 st; CAFTA/DR, Peru, and other FTA's, ~130,000 st.)

Figure 20

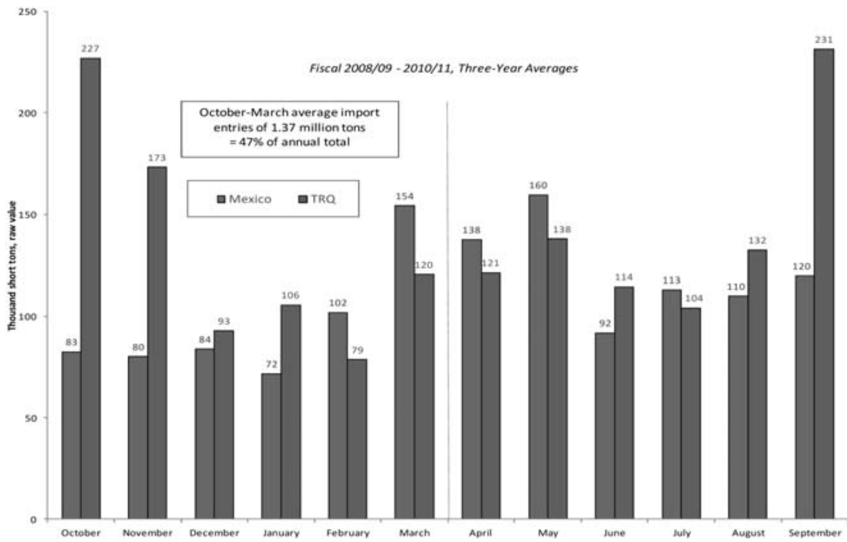
U.S. Sugar Market Well Supplied During October–March: 84% of Production, Only 48% of Deliveries to Users, *FY 1997/98–2010/11 Average*



Data Source: USDA. On average, 92.0% of raw cane sugar production occurs during October–March; 76.6% of beet sugar production.

Figure 21

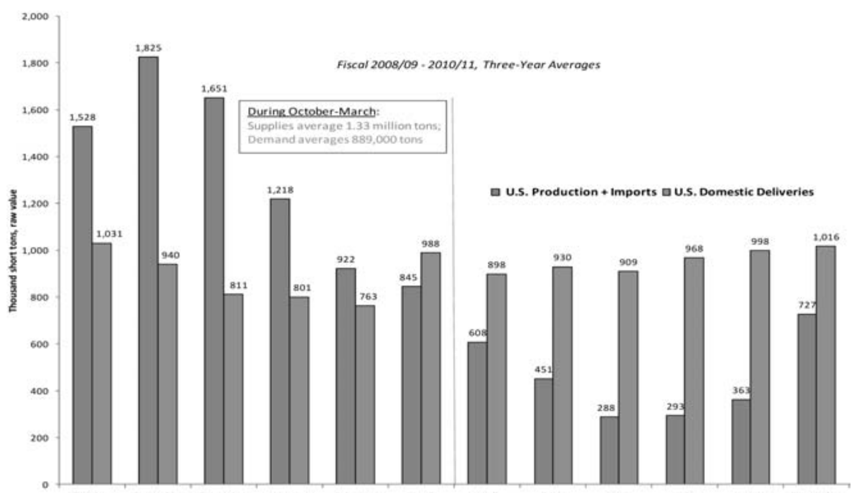
Monthly U.S. Sugar Imports from Mexico and under Tariff-Rate Quota (TRQ): Nearly Half of All Imports Occur during October–March



Source: United States Customs and Border Protection (CBP), January 2012. Tarriff-rate quota (TRQ) entries under WTO and FTA commitments.

Figure 22

U.S. Production + Imports *vs.* Deliveries to Users: Supplies Exceed Demand by 50% during October–March



Source: USDA. Imports from Mexico and under WTO and FTA tariff-rate quota (TRQ) commitments.

APPENDIX

Summary Table

Table SUM.1: Summary of Support for Sugar Industry in Selected Countries, 2008

	Australia	Brazil	China [4,5]	Colombia [6]	EU [7,8,9,10]	Guatemala	India [11,12]	Indonesia	Mexico	S. Africa	Thailand [12,13,14]
TRANSPARENT SUPPORT											
Domestic Market Controls											
Guaranteed Support Prices			✓		✓		✓	✓			✓
Supply Management/Controls			✓		✓		✓				
Market Sharing/Sales Quotas				✓		✓			✓	✓	✓
Import Controls											
Import Quota/TRQ			✓		✓			✓		✓	✓
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓					✓			✓
Quality Restrictions						✓					
Export Support											
Export Subsidies					✓		✓				
Single Desk Selling				✓		✓				✓	
NON-TRANSPARENT SUPPORT											
Direct Financial Aid											
State Ownership								✓	✓		
Income Support	✓				✓						✓
Debt Financing [1]	✓	✓					✓				
Input Subsidies [2]							✓	✓			
Indirect Long Term Support											
Programs to Improve Efficiency	✓							✓			
Ethanol Programs (mandates/tax breaks)		✓		✓	✓						
Consumer Demand Support			✓								
Average Production, 2004/05-06/07 (mn mt, raw value)	5.3	29.6	11.2	2.6	20.8	2.1	21.9	2.4	5.7	2.4	5.8
Rank Among World Producers	8	1	4	11	3	18	2	12	7	13	6
Average Exports, 2004/05-06/07 (mn mt, raw value)	4.2	19.3	0.2	1.1	5.0	1.4	1.0	-	0.4	1.1	3.4
Rank Among World Exporters	3	1	28	8	2	6	9	-	14	7	4
Domestic Wholesale Sugar Price, 2004/05-06/07 (cents/lb)	17.4	11.5	18.0	24.4	39.1	18.2	17.7	22.5	31.0	n.a.	16.8
Import Tariff Level (refined, a.v. or equivalent) [3]	0%	16%	50%	20%	170%	20%	60%	20%	126%	0%	65%

ACCOMPANYING NOTES:

1. Includes low interest loans, interest rate subsidies, debt relief and debt rescheduling.
2. Includes crop pre-financing, irrigation provision, land maintenance and inventory financing.
3. Ad valorem (a.v.) equivalents are based on average world price for 2004/05 to 2006/07. All tariffs refer to the actual applied tariff rate in each country. In some cases, WTO bound tariff rates are much higher than this level.
4. Cane and beet prices in China are controlled at the provincial level.
5. China applies a 15% tariff to in-quota sugar, and a 50% tariff to out-of-quota sugar.
6. In addition to the basic duty, Colombia applies a variable surcharge, which varies according to the prevailing level of world sugar prices.
7. Although the EU industry has benefited from export restitutions in the past, in the future, the extent to which the European Commission will grant export refunds is uncertain.
8. As part of the compensation for the reduction in EU sugar prices, the EU provides direct income payments to farmers. In addition, the EU also offers energy crop aid of €45 per hectare for beets produced for ethanol.
9. The EU Commission provides directives on ethanol use, though these are not binding.
10. This import duty refers to the basic tariff only. In addition, the EU applies a special safeguard duty, which varies with the level of world prices.
11. India currently controls the amount of sugar that can be released onto the domestic market each month. However, this policy is expected to be abolished in October 2008.
12. Both India and Thailand have ethanol programmes. However, to date, there is no cane-based ethanol production in these countries.
13. The Thai government has provided income support to growers using a credit line of 62 baht/metric ton to supplement cane prices. This has been provided through a loan from agricultural banks to the Cane Sugar Fund. Officially these loans are to be repaid.
14. The Thai domestic price was increased to 19 baht/kg (26.7 cents/lb @ 32.24 baht/US$) in April 2008.

SUBMITTED STATEMENT BY HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA; ON BEHALF OF SPECIALTY CROP INSURANCE LEAGUE[1]

The Specialty Crop Insurance League (SCIL) was formed in 2010 with the sole mission of strengthening and improving the crop insurance program for specialty crop producers. SCIL is the largest crop insurance agent organization in the nation devoted exclusively to representing commodities from almonds to zucchini, and every specialty crop in between. We represent the interests of growers and their agents from California to New York, and from Florida to Washington.

The Federal Crop Insurance program is an essential risk management tool for America's farmers. Crop insurance agents are the farmers' point of contact with the entire crop insurance program. Particularly for growers of specialty crops, the expertise and effort of insurance agents is critical for completing timely and accurate applications and claim forms for submission to the 15 private insurance companies.

In April 2009, the Government Accountability Office issued a report titled "Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program." The report addressed how Administrative and Operating (A&O) allowances paid by USDA to the private insurance companies had tripled between 2000 and 2009, and average agent commissions, per policy, had increased by 16 percent per year during that period. This increase was almost entirely attributable to the rapid increase in commodity prices of corn and soybeans during the second half of that decade, the so-called "program crops" defined in section 1001(8) of the 2008 Farm Bill. The average commission paid per policy in the five Corn Belt states (Illinois, Indiana, Iowa, Minnesota, and Nebraska) increased by 86% from 2006 to 2007, more than twice the rate of the other 45 states, where commodity prices have remained stable.

The 2011 Standard Reinsurance Agreement (SRA) was negotiated between USDA's Risk Management Agency (RMA) and the private insurance companies, with RMA attempting to control the growth of A&O allowances and agent commissions. Instead of crafting a solution that addressed the underlying problem of the growth in the price of program crops, or even the growth of A&O allowances and commissions in the Corn Belt states, RMA created an agreement with the private insurance companies that imposed a nationwide, across-the-board cut in all A&O payments and all agent commissions. Under the new SRA, A&O allowances were capped at $1.22 billion nationwide, and agent commissions were capped at 80% of the total A&O allowances for each state. The commission cap imposed by the SRA benefits the private insurance companies, but at tremendous cost to the individual agents. No insurance agents, farmers, or groups representing their interests were allowed to comment on or in any way participate in these negotiations.

For the first time since the Federal Crop Insurance program was created during the Dust Bowl days of the Great Depression, the Department of Agriculture included language in its agreements with private insurance companies that restricted payments by those companies to private insurance agents who were not parties to the agreement. Adding insult to injury, the 2011 SRA included a "covenant not to sue" that barred the insurance companies and crop insurance agents from bringing any challenge to the provisions of the SRA that RMA had imposed. With the stroke of a pen and without a word of input, RMA deprived crop insurance agents—particularly those servicing specialty crops—of a substantial portion of their livelihood.

From Crop Year 2010 to Crop Year 2011, the first year in which the SRA was in effect and the only year for which A&O and commission payments have been made, the damage from this secret agreement is already being seen. While A&O payments per agent continue to rise in the program crop states that created the problem that the SRA was meant to fix, agents in specialty crop states are suffering. RMA's own figures as to A&O payments per state and the number of crop insurance agents in each state tell the story:

State	2010 A&O	Agents	2011 A&O	Agents	A&O / Agent % Change
Illinois	$90,947,981	1,414	$101,790,479	1,420	11%
Indiana	$49,090,448	813	$57,064,262	826	14%
Iowa	$102,149,352	2,274	$112,048,844	2,241	11%
Minnesota	$94,529,253	1,242	$92,037,973	1,258	−4%
Nebraska	$85,851,131	1,387	$83,556,618	1,410	−4%
Texas	$116,319,652	582	$136,946,742	596	15%
California	$41,333,973	317	$28,223,726	322	−33%
Florida	$17,475,879	149	$12,592,521	158	−32%
Idaho	$11,147,736	105	$9,151,742	106	−19%

[1] For further information, please contact us at [**Redacted**].

State	2010 A&O	Agents	2011 A&O	Agents	A&O / Agent % Change
Kansas	$100,792,364	1,032	$87,359,411	1,070	−16%
Michigan	$23,082,306	230	$22,942,942	262	−13%
Washington	$18,416,836	134	$16,284,509	136	−13%

In just 1 year, the program crop states have held steady or continued with double-digit growth, while the specialty crop states are experiencing double-digit losses. Hundreds of crop insurance agents in California and Florida have seen ⅓ of their livelihood taken away overnight, redistributed to 15 large private insurance companies.

Having been shut out of the negotiation of the document that took these payments away from them and prevented from bringing a legal challenge to this agreement, specialty crop insurance agents now face difficult choices as to staffing, staying in business, and continuing to serve the growers in their local communities. Efforts to change the SRA have been rebuffed; RMA and the 15 insurance companies are unwilling to come to the specialty crop agents' aid and the Agreement is not scheduled to be renegotiated until 2015. By then, few of SCIL's members will still be in business to see what the next agreement brings.

Congress has twice directed USDA to consider alternative methods for calculating A&O allowances and agent commissions; mandated in the 2008 Farm Bill and recommended in the 2009 GAO Report, which called on USDA to "implement a methodology so that the A&O allowance more closely aligns with expenses, as it did before crop prices rose in 2006" since "[l]inking A&O allowances to reasonable expenses would also help stabilize the allowances that insurance companies receive." As the 2008 Farm Bill reaches its expiration, the only solution that USDA has put forward is to take income away from specialty crop insurance agents.

There are two possible legislative solutions to this problem. One approach is legislative language to remove the caps on agent compensation for any contracts other than those covering "program crops" under the 2008 Farm Bill. This could be achieved by adding the following subparagraph to the end of Section 508(k)(8) of the Federal Crop Insurance Act of 1938 (7 U.S.C. 1508(k)(8)):

> (F) SPECIALTY CROPS.
>
> (i) IN GENERAL.—Crop insurance contracts covering commodities not defined in section 1001(8) of the Food, Conservation, and Energy Act of 2008 (7 U.S.C. 8702(8)) or covered under Subtitle C of such Act (7 U.S.C. 8751 *et seq.*) shall not be subject to a limit on total administrative and operating expense subsidy allowed in a reinsurance year as prescribed in Section (III)(a)(2)(G) of the Standard Reinsurance Agreement in effect beginning with the 2011 reinsurance year or any other agreement or regulation promulgated to carry out this Act.
>
> (ii) EFFECT.—Nothing in this subparagraph shall be construed to authorize the limitation on administrative and operating expenses described in clause (i) or as statutory assent to the administrative interpretation of this Act that resulted in such limitation.

Such a solution would not require any changes to the remainder of the SRA, since the 2008 Farm Bill amended the Federal Crop Insurance Act to add the following provision:

> If Federal law is enacted after the date of enactment of this paragraph that requires revisions in the financial terms of the Standard Reinsurance Agreement are made on a mandatory basis by the Corporation, the changes shall not be considered to be a renegotiation of the Agreement for purposes of subparagraph (A) [of 7 U.S.C. 1508(k)(8)].

An alternative solution would be a reference pricing solution that would achieve the goals of long-term stability, while resolving the impact of rising program crop prices over time, as compared to the prices of specialty crops. In the first two drafts of the 2010 SRA, there were proposals to use "reference prices" to control against runaway commodity prices by indexing the prices or allowing them to move up or down within narrow bands. This would provide protection against the corn price boom that we've seen in the past 10 years, offer cost predictability to RMA, the insurance companies, and agents, and avoid the concerns with risk exposure to the companies.

The language necessary to add reference pricing to the existing 2010 SRA would be to amend the new farm bill to require RMA to include the language from Section III(a)(2)(B)(ii) of the second draft of the SRA (dated February 23, 2010), into the

SRA as a new Section III(a)(2)(C), renumbering the remaining paragraphs accordingly. We believe that the reference prices were set at levels that would basically match the national A&O cap amount (approximately $1.2 billion). Thus, there is an opportunity for a clean fix to the dire problem facing specialty crop insurance agents and, in turn, specialty crop producers, without upsetting the entire program.

At stake is nothing less than the continued viability of the Federal Crop Insurance program for specialty crop producers. Agents cannot be asked to suffer annual losses of 13%, 19%, or 33% and expect to stay in business selling crop insurance. Without agents to work with specialty crop producers, these farmers would be left out of the Federal Crop Insurance program. In other situations, RMA has been willing to take steps to encourage specialty crop growers to participate in the program. For new crops, coverage under pilot programs such as those added recently for pistachios and olives is not subject to "factor" reductions in A&O allowances like other crops, in order to encourage insurance companies, agents, and farmers to insure such crops. In areas that RMA has deemed "under-served' by the Federal Crop Insurance program, referred to in the SRA as the 17 "Group 3" states, RMA collects the 6.5% of the underwriting gains from the insurance companies and distributes 1.5% of the gains to the companies for distribution to agents in those states. This "Net Book Quota Share" paid approximately $20 to $25 million to these agents last year. For specialty crop agents elsewhere, however, RMA offers no such lifeline.

In every conversation with RMA, the insurance companies, and Congressional offices, we have been told that everyone recognizes that the SRA had terrible unintended consequences for specialty crop insurance agents. There is no question of the injury suffered by our members, particularly those in California. The only question is whether Congress is willing to act to save the program and continue to offer protection to the nation's specialty crop producers.

Thank you for the opportunity to provide this statement on behalf of the Specialty Crop Insurance League.

SUBMITTED JOINT STATEMENT BY UNITED STATES CONFERENCE OF CATHOLIC BISHOPS; CATHOLIC RELIEF SERVICES; NATIONAL CATHOLIC RURAL LIFE CONFERENCE

Introduction

The United States Conference of Catholic Bishops (USCCB), Catholic Relief Services (CRS) and the National Catholic Rural Life Conference (NCRLC) are grateful for the opportunity to provide this testimony for the hearing on *Formulation of the 2012 Farm Bill: Commodity Programs and Crop Insurance.* The Catholic community brings a unique perspective and our everyday experience deeply rooted in this country and around the world, especially rural communities. We see first-hand, farm and ranch families losing a way of life, rural communities losing viability and hungry children struggling to have a decent life.

We bring to these discussions moral principles drawn from our faith and everyday experience. Our clear directions for U.S. agriculture policy are driven by our conviction that current policies leave too many behind in the communities we serve. By our own efforts and our advocacy on public policy priorities we seek to help provide adequate nutrition for poor and hungry people at home and abroad; offer support to those who grow and harvest our food, fairness to family-run farms and ranches; and to promote stewardship of the land through effective conservation programs. In our soup kitchens and on our doorsteps, we see the faces of poor and hungry people every day. We feed those without work, pregnant women and children, and seniors living on a limited income. For many of them, the meal they receive from our ministries is the most nutritious meal they receive that day.

In *For I Was Hungry and You Gave Me Food: Catholic Reflections on Food, Farmers and Farmworkers,* the U.S. bishops stated: "the primary goals of agriculture policies should be providing food for all people and reducing poverty among farmers and farmworkers in this country and abroad." As a community of faith, we believe that food is a right of all people and that hunger is a direct threat to the life and dignity of millions of people.

Even with a struggling economy, our nation has a moral obligation to ensure that people at home and abroad have enough nutritious food to eat. Together, we call on Congress to support a farm bill that sustains and strengthens critical food and nutrition programs for hungry people, strong conservation programs that promote stewardship of creation and fair farm support systems that help family farmers and ranchers thrive.

The Nutrition Title and Catholic Experience

In 2010, nearly 50 million people lived in households that struggled to put food on the table, putting millions of families at risk of hunger and poor nutrition. It is reported that one in five children live in a household that at times ran out of food and one in four Americans participated in a Federal nutrition and food program.

Rural America is particularly impacted by hunger, food insecurity and high rates of poverty. Sixteen percent of people in rural communities live in poverty, a rate higher than those living in metropolitan areas. It is ironic and unacceptable that where our food is produced so many people suffer from hunger and food insecurity. The free and reduced school lunch and SNAP programs (food stamps) benefit many of these families struggling to make ends meet.

Serving hungry, poor and vulnerable people is an essential mission of our Catholic faith. As Christians, we are called to serve the "least of these" and "bring glad tidings to the poor." In our churches, soup kitchens, schools and charitable agencies we serve all people with compassion and respect. In following the Gospel, we serve others not because they are Catholic but because our Catholic faith compels us to reach out and care for those in need.

Through our Catholic organizations and institutions we are serving the hungry and helping the most vulnerable. For example, in Chicago there are hundreds of Catholic organizations that serve the needs of the city. One of those is Catholic Charities which provides 2.2 million free meals to the hungry and vulnerable each year. That is 6,027 meals a day, in one city. Many of these agencies, parishes, food pantries and schools, along with private resources, partner with government to provide food to hungry people through programs such as **The Emergency Food Assistance Program (TEFAP)** and the **Commodity Supplemental Food Program (CSFP).**

Today, our Catholic parishes and charities and other local agencies are experiencing significant increases in requests for food assistance due to economic hardship and occasional natural disasters. People who have lost their homes, the unemployed and working people with low wages are turning to us for help. As this need increases, the ability of our organizations to respond becomes more challenging. In 2011, Catholic Charities USA reported that 64% of its local agencies were unable to respond to all requests for assistance in their local communities. A stronger partnership between churches, charities and government must respond effectively to rising needs.

Policy Priorities

The Supplemental Nutrition Assistance Program (SNAP—formerly known as food stamps) is the first line of defense for people who do not have enough food each month. In 2011, SNAP served more than 45 million households throughout the nation. With the purchasing power of food stamp dollars decreasing and food prices rising, vulnerable people, especially children and seniors, cannot afford to have their benefits cut or reduced.

As you consider the 2012 Farm Bill, we ask you to protect, support and strengthen critical nutrition programs that serve hungry and vulnerable people:

- **The Supplemental Nutrition Assistance Program (SNAP)** feeds millions of households struggling against hunger, 76 percent include a child, senior or disabled member and 85 percent have incomes that fall below the Federal poverty guideline. We urge you to oppose attempts to reduce or make other changes that would decrease critical benefits.
- **The Emergency Food Assistance Program (TEFAP)** helps low-income families, children and seniors struggling to make ends meet. We urge you to support TEFAP because it ensures that nutritious commodities are distributed to hungry people in communities through faith-based and charitable organizations such as churches, soup-kitchens, food pantries and shelters.
- **The Commodity Supplemental Food Program (CSFP)** is a vital program that primarily works to improve the health of low-income seniors, low-income pregnant and breastfeeding women, new mothers, infants and children up to age 6. CSFP provides a nutritious monthly food package designed to meet specific nutritional needs and combat poor health conditions. Many of the food packages are delivered through Catholic charities and parish ministries.

The 2012 Farm Bill provides an opportunity to strengthen the food and nutrition safety net. The reauthorization should provide effective access to nutritious food for hungry and vulnerable people at home and abroad, including legal non-citizen residents.

We offer the following recommendations as you consider the 2012 Farm Bill:

- **Prevent cuts or reductions** to the SNAP program. Reductions or technical changes that would result in a loss or erosion of benefits to hungry and vulnerable people must be rejected.
- **Do not erode benefits or promote barriers** to access. States should have flexibility in finding effective ways to feed hungry people and respond adequately to local needs but this should not result in a loss or a reduction in benefits, especially for children.
- **Maintain the current entitlement structure** of SNAP so that it may continue to respond to people suffering as a result of economic hardship or other unforeseen crises.
- **Maintain "categorical eligibility"** for food stamps. People, who receive benefits such as Temporary Assistance for Needy Families (TANF), should also be able to receive food stamps to meet their needs without additional bureaucracy or paperwork.
- **Simplify the application process** to better serve working families and seniors who are under-served by the SNAP program.
- **Review and repeal the current provisions penalizing** low-income families headed by a parent with a past drug conviction.

International Food Security and Development and the Catholic Experience

The rich body of Catholic social teaching gives priority to our poorest brothers and sisters in allocating scarce resources. The Catholic Church works to serve people in countries that suffer hunger, drought, war and other hardships. The Church is a trusted institutional presence that not only brings aid but also compassion and justice to those in need.

For 68 years Catholic Relief Services has successfully implemented humanitarian development programs in one hundred countries around the world. CRS reaches more than 100 million people in more than 100 countries. The mission of CRS is to provide assistance to impoverished and disadvantaged people overseas and serve people based solely on need, regardless of race, religion, or ethnicity. CRS implements its programs through a network of credible local partners, including the local Catholic Church in many countries. This gives CRS the ability to operate in locations that other aid implementers cannot, and to reach a much larger number of people than most other aid groups.

CRS has long been a partner of the U.S. Government in the implementation of foreign assistance programs, including both emergency and development programs funded by Title II of P.L. 480 Food for Peace, and school feeding programs funded by McGovern-Dole Food for Education.

Title II emergency programs save lives when communities are impacted by natural disasters or human conflict. Over the last 5 years, CRS has implemented six Title II emergency assistance programs in countries like Sudan, Zimbabwe, Ethiopia, and Haiti. After the 2010 earthquake in Haiti, CRS fed 90,000 displaced people through school and community-based programs and food-for-work programs. CRS also rebuilt critical infrastructure such as roads linking those impacted to critical services.

CRS's Title II development programs address chronic hunger, through food distributions of U.S. produced food commodities and through complementary agricultural development, maternal and child health, nutrition, and water and sanitation programming. Since 2008, CRS has implemented nineteen development programs, twelve of which are still ongoing in Africa, Central America and the Caribbean. One of these ongoing programs is in Ethiopia, where CRS works within a consortium to implement the Productive Safety Net Program (PSNP). This program provides supplemental food and cash resources to enable participants to save and invest in household assets such as livestock or small businesses. These savings help families get through disasters, like the devastating 2011 drought, without resorting to negative coping strategies such as eating fewer, less nutritious meals or selling productive household assets such as animals or farming tools. USAID recently reported that the PSNP program helped prevent 1.5 million drought-affected Ethiopians from needing emergency assistance.

The McGovern-Dole Food for Education (FFE) programs are carried out by CRS primarily as school feeding programs to support education, child development, and food security for some of the world's poorest children. For instance, in Mali, the FFE program has provided over five million meals, as well as vitamins and medication, to children in 120 schools, and has increased school enrollment in these schools for boys by 18% and for girls by 29%.

Policy Priorities

Maintaining strong Title II and McGovern-Dole food assistance programs will allow CRS, local partners and other implementing organizations to meet critical human needs in a more effective and efficient manner.

We offer the following recommendations as you consider international food security and development in the 2012 Farm Bill:

- **Title II Funding:** Title II funding should be maintained at a level commensurate with the need to address both emergencies and chronic hunger. At a minimum, Title II should be reauthorized at $2 billion each fiscal year, to ensure the U.S. continues its exemplary leadership and foresight in providing international food assistance to the world's poorest people.
- **Protection of Development Programs through the Safe Box:** Development food assistance through Title II's "safe box" is essential, and at minimum should be reauthorized at $450 million each fiscal year. Development programs funded through the safe box save lives before an emergency occurs by addressing the causes of chronic hunger. Through activities like building irrigation systems, digging latrines, distributing highly nutritious foods, and educating local communities on basic health and dietary practices, Title II development programs help small farmers increase agricultural output, improve community sanitation conditions, and strengthen the health of vulnerable populations. Ultimately, these programs prevent or mitigate the need for emergency assistance by helping people develop the tools and ability to better cope with drought or other disasters.
- **Build Flexibility in Title II Programs:** Flexibility should be built into Title II development food assistance to allow the programs to be more cost-effective and responsive to the needs of those served. This includes increasing the amount of cash available for programs, expanding the use of cash to all core programming expenses, and authorizing the use of local and regional procurement in appropriate circumstances.

The moral measure of our society is how we treat the "least of these." We urge Congress to maintain strong funding for the Title II Food for Peace and McGovern-Dole Food for Education programs as part of the 2012 Farm Bill. These are effective programs that feed hungry people abroad and promote development in poor countries. We urge you to resist cuts and changes that would reduce help for hungry and vulnerable people.

The Conservation and Rural Development Titles and Catholic Experience

There is an integral relationship between the food we grow and eat and the land where it is grown. The Catholic Church has a major presence in rural America and in rural communities throughout the world. Our diverse Catholic community includes farmers and ranchers and their families, farmworkers, land owners, contract growers and business owners. There are people of faith who strive to work the land while respecting and caring for the gift God has bestowed on us all. They bring both their skills and the desire to care for the land and natural resources in order to be good stewards of God's creation.

Just one small example, in LaFayette, Oregon, Brother Chris, a Trappist monk with a forestry background, maintains the forests and hiking trails surrounding the monastery for persons who come on spiritual retreat and reflection. He works to ensure the hills and forests are respected and are a source of inspiration to both members of his religious community and to their many visitors. Brother Chris also manages the forest efficiently to produce periodic income to help meet the financial needs of his self-supported religious community. He uses forestry practices that conserve and promote sustainability so that future generations will be able to enjoy the resources and beauty of the surroundings.

Conservation of land and natural resources is one of the Catholic community's priorities in the 2012 Farm Bill. We believe it is our responsibility to show respect for our land and natural resources and to safeguard it for the future. Unlike other elements in the farm bill, conservation programs have been subject to nearly $3 billion in cuts through the appropriations process since the last farm bill was enacted. Increased adverse environmental conditions and marginal land being converted to row crop production have left the land more vulnerable to severe soil erosion. Conservation programs are important to counteract these affects.

It is also essential to maintain resource conservation and environmental enhancement programs to help sustain family farms and support rural community development. Rural communities and small towns are the backbone of the social and economic life of America. Family farms remain a treasure to our nation and the Catholic community. Rural communities need investment and resources in order to be successful and to contribute to the economy and their local communities.

Kevin, a former teacher from Wichita, Kansas, recently moved with his family closer to his hometown of St. Leo, Kansas to begin a family farm. His family felt the need to draw closer to the land and pursue a life where they could be good stewards of creation, farm in a sustainable manner and provide for their family. Kevin and his wife Mary, also desire to pass their passion for farming on to their children. Their family exemplifies the Catholic community's commitment to support small to medium-sized family farms and ranches as a valuable source of life and economic development in rural communities.

Policies that target support to highly industrialized farming can cause farm consolidation, further depopulate rural communities and adversely affect small and medium-sized farms. Effective policies and programs are needed to encourage rural development and promote the livelihood and well-being of these communities. In these times of financial hardship, our public policies should call for shared sacrifice and strive to protect rural communities and those most in need.

Policy Priorities

The programs in the conservation and rural development titles work to preserve the health of America's rural communities, as well as soil, water, and other natural resources essential to the long-term productivity and economic viability of agriculture and forestry. Protecting and responsibly managing our natural resources is critical to the well-being and future of American communities and the common good of all.

We offer the following recommendations as you consider reforms to the conservation and rural development titles in the 2012 Farm Bill:

- Support strong funding levels that allow for greater participation in the **Conservation Stewardship Program (CSP).** Despite great demand, this program has been consistently under-funded in previous budgets. We fully support the original goal of the CSP program to provide environmental stewardship payments for working farms attuned to the common good.
- Consider the public health benefits of improving water and air quality as part of the **Environmental Quality Incentives Program (EQIP).** We ask that EQIP, CSP and other conservation programs always target payments to small and moderate size operations. This would encourage wider enrollment while also promoting more vibrant rural communities.
- Maintain the full range of conservation casement programs, notably the **Conservation Reserve Program (CRP)** as well as the reserve programs covering Wetlands, Grasslands, and the **Farmland Protection Program.** Beyond ensuring adequate funding for these programs, we see the need for greater coordination in the application, contract and enforcement of these programs.
- Support and adequately fund **Value-Added Producer Grants** to help beginning, socially disadvantaged, and small and mid-sized farmers and ranchers.
- Adequately fund the **Rural Micro-Entrepreneur Assistance Program (RMAP)** and ensure access to broad-band telecommunications services to help rural businesses and communities prosper.

Even in the face of budgetary constraints, we urge clear priorities and policies in the 2012 Farm Bill to promote and maintain strong conservation programs to protect God's creation and encourage rural development and promote the vibrancy and well-being of rural communities.

Subsidies and the Farm Safety Net

We believe that farmers, ranchers and farmworkers deserve just wages, safe working conditions and benefits for them and their families. Farmers also need an effective safety net that helps them mitigate risks from drastic changes in climate and weather patterns and trade distorting policies. Fair agriculture policies must ensure basic income security and provide opportunities for economic initiative for farmers at home and around the world, especially for smaller and medium sized farms and ranches.

Catholic social teaching assesses agriculture and development policies on whether they encourage widespread diversity in farm ownership, advance rural development and safeguard the livelihood of those who grow and harvest our food. We remain concerned that ownership of land and natural resources, and the marketing and distribution of food is controlled by and benefits too few people. We also regret that trade distorting practices can lead to higher food costs and that subsidies often negatively impact the livelihood of farmers in developing countries. These increased pressures especially impact poor and hungry people and particularly children.

The 2012 Farm Bill provides the opportunity to reform Title I to respond to the requirements of justice and strengthen our commitment to active farmers and rural communities offering support where it is most needed as well as redirecting resources to poor and hungry people.

Policy Priorities

The commodity title (Title I) was established to provide a safety net for farmers and it is important to continue reasonable support for commodity and dairy farmers. In these times of national and economic hardship, policies should reflect shared sacrifice. Given current high commodity prices and Federal budget constraints, agriculture subsidies such as direct payments, can be reduced overall. Direct payments should be targeted to small and medium-sized farms, especially those represented by traditionally underrepresented groups. Government resources should aid those who truly need support and who practice environmentally sound and sustainable farming practices.

We also call for a careful reconsideration of the economics and ethics of subsidizing food to produce fuel. With so many people struggling with hunger and higher food prices, social justice and the pursuit of the common good require us to reconsider how our policies impact the hungry in our communities and in poorer nations.

We offer the following recommendations for your consideration on Title I in the 2012 Farm Bill:

- **Protect small to medium-sized family farms** by ensuring they have access to safety net programs such as farm/crop insurance to mitigate the effects of adverse weather, climate and trade distorting policies. The farmers with the greatest needs should have first claim on agricultural assistance.
- **Establish a reasonable cap on commodity payments** so that smaller producers are protected. The current level of assistance disproportionately favors larger industrial producers. Simply rewarding production undermines the ability of smaller farmers to compete and thrive. For example, corn and cotton producers receive some of the largest subsidies. This can lead to prioritizing land for corn production intended for ethanol for automobiles rather than hungry people. Subsidies that lower cotton prices hurt many cotton farmers in poor developing countries by undermining their livelihood.
- **Significantly reduce trade distorting support programs** that disadvantage farmers in poor countries. Some subsidies, supports, tariffs, quotas and other barriers undermine market access for poorer countries and local producers.
- **Target and redirect savings** from reductions in the commodity title to support programs that assist poor and hungry people and encourage responsible stewardship of the land and rural development. Reductions in subsidies should be dedicated first to support domestic nutrition and international food aid and development programs that help people in need. Second, these resources should support adequate funding for conservation and rural development programs that promote stewardship of creation and help rural communities prosper.

Conclusion

The Catholic community brings a unique perspective to the 2012 Farm Bill. Our vision is rooted in our Catholic social teaching tradition and our active presence and experience in the life of rural communities in this country and around the world. Our teaching and experience provide the Catholic community with a view on how agriculture policies affect farm families, hungry children, how the land is cared for, and the viability of rural communities.

These directions for U.S. agriculture policy are shaped by our conviction that current policies leave too many vulnerable people behind. Especially in times of budgetary constraint, a just farm bill must prioritize the life and dignity of the human person and the common good of all.

SUBMITTED QUESTIONS

Response from Gary D. Schnitkey, Ph.D., Full and Associate Professor, Department of Agricultural and Consumer Economics, University of Illinois

Questions Submitted By Hon. Robert T. Schilling, a Representative in Congress from Illinois

Question 1. Dr. Schnitkey—We're in an extremely tight fiscal spot here and this Committee must be efficient in providing farmers with risk management programs. In your opinion, is PRICE, YIELD, or REVENUE the best metric for the government to focus on when providing such a program?

Answer. In my opinion, revenue is the most important metric. Costs are paid with revenue, not yield or prices. You can have low yield and reasonable revenue if prices are high, and *vice versa.*

Question 2. In your testimony, you indicate that the program is fairly equitable based on program crops' gross revenue. But what about variable costs? Some crops are more expensive to grow than others?

Answer. This is a good point and variable costs do vary across crops. However, variable costs of the crop tend to align with crop costs over time. Rice has higher variable costs than corn. It also have higher revenue.

Question 3. When corn and soybean farmers in my district tell me they don't receive a crop insurance payment even when they sometimes have quite large losses, how can we correct this? Some tell me that their county has a "loss ratio" of .25. Can you elaborate on this situation?

Answer. Most of the time I hear this, it is because of low prices at the beginning of the year. Crop insurance sets its prices used in guarantees during February. If prices during that month are low, then crop insurance may not make payments even though revenue is low.

Crop insurance has paid at low rates in Illinois compared to other states. This is because Illinois has less yield variability than other states.

Question 4. Regarding crop insurance, are there other crop insurance products that we should be encouraging RMA to look at?

Answer. One of the biggest improvements would be to improve ratings. Moving to a point where yields are tied to land quality and location would help the rating process.

Question 5. Wouldn't raising target prices help in protecting farmers when we have long-term price declines rather than creating a complicated program that is hard to understand?

Answer. Yes, but sometimes prices will be below target prices and revenue will still be reasonable because yields are high. In addition, target prices can distort the market if prices are not appropriately set.

Response from Linda C. Raun, Chairwoman, USA Rice Producers' Group; Partner, LR Farms; on Behalf of USA Rice Federation

Questions Submitted By Hon. Robert T. Schilling, a Representative in Congress from Illinois

Question 1. It is my understanding that rice producers prefer the target price option and that you do not support the floor price of $13.00 in the proposed ARC program in the Senate reported bill.

Answer. Yes, rice producers prefer to have the option of either a price-based option or a revenue-based option that growers can choose from rather forcing all into one policy. We support including a reference price in both the revenue-based option and the price-based option, but we believe the $13/cwt in the ARC program in the Senate bill is too low based on our costs of production and other factors.

Question 2. However, the Congressional Budget Office is projecting a long term market price average just above that level. Do rice growers need a target price of $13.98 that was reportedly in the Joint Committee's recommendation last fall?

Answer. Yes, we need a reference price in a price-based option of $13.98/cwt as was reportedly included in the recommendations from the Agriculture Committee's last fall. This reference price level is still well below our costs of production based on the parameters that were included in the proposal last fall.

Response from Steve Wellman, President, American Soybean Association

Questions Submitted By Hon. Robert T. Schilling, a Representative in Congress from Illinois

Question 1. We're in an extremely tight fiscal spot here and this Committee must be efficient in providing farmers with risk management programs. In your opinion, is PRICE, YIELD, or REVENUE the best metric for the government to focus on when providing such a program?

Answer. In ASA's opinion, revenue is the most accurate method for protecting farmers against the risks they face, since it reflects both price and yield. Price responds to several factors, including domestic and world production and demand and foreign competition. Yield reflects weather and management. Price and yield are often inversely related—lower yields in major growing regions frequently result in higher prices. Since risk management programs should be designed to protect against unavoidable declines in farm income, not solely price or yield, revenue is the best metric for providing this protection. ASA agrees we must be fiscally efficient in developing risk management programs for farmers. A revenue program that pays only when farmers have a revenue loss compared to previous history is a fiscally efficient program. Using a combination of price and yield, revenue allows an increase in yield to offset some of the cost outlays when prices decline. Since there is not a fixed price, it reacts to current production and market conditions.

Question 2. As a corn and soybean farmer, can you elaborate a little on your thoughts about the Agriculture Risk Coverage program posed in the Senate farm bill?

Answer. The Agriculture Risk Coverage (ARC) program in the Senate farm bill would partially offset revenue losses incurred by farmers on crops they grow in the current year. At the same time, by requiring farmers to incur a loss on individual commodities, it would not create an incentive for producers to grow specific crops in anticipation of receiving payments that could distort their planting decisions. Finally, since the revenue benchmark established under ARC would be based on a moving average of prices and yields, the program would more closely reflect recent market and production realities.

Question 3. When corn and soybean farmers in my district tell me they don't receive a crop insurance payment even when they sometimes have quite large losses, how can we correct this? Some tell me that their county has a "loss ratio" of .25. Can you elaborate on this situation?

Answer. The high deductible in crop insurance is often cited by growers as a reason that crop insurance cannot alone provide a safety net. When farmers relate that they have suffered, for example, a 25% loss but not received an indemnity, this likely means they purchased a crop insurance policy for 75% coverage or less, leaving them uninsured for at least 25% of their crop. Federal crop insurance is also based on a 10 year yield history and most crops have increased annual yields over time. So the yields farmers are able to insure are lower than their actual yields. The Risk Management Agency (RMA) implemented a new option for farmers to increase their yield calculation this year, the "Trend-Adjusted APH Yield Endorsement." History has shown that as premium subsidies (including the addition of enterprise units) increase, farmers buy higher levels of coverage and are able to decrease their deductible.

When a county has a 0.25 loss ratio, that means that $25 in indemnities have been paid for each $100 collected in premium. A loss ratio of 0.25 indicates that few losses have been paid in that county for that year, and that most farmers have had a successful crop.

Question 4. Regarding crop insurance, are there other crop insurance products that we should be encouraging RMA to look at?

Answer. Farmers are always interested in improving the crop insurance products offered to them. The most long-standing complaint about crop insurance is that it does not cover multiple years of declining yields. ASA is aware that RMA fully understands this problem and solutions have been elusive. If such a policy can be developed, it will find a receptive grower market. One product that has been taken off the market in some places is the Group Risk Income Protection (GRIP) policy. RMA explains that this is likely because of low participation, but can also be due to the National Agricultural Statistics Service (NASS) no longer publishing county data to be used for the policy. When appropriate, ASA supports increasing availability for the GRIP policy. There are two improvements in the proposed Senate bill that achieve crop insurance improvements for farmers: allowing for separate coverage for irrigated and nonirrigated crops for enterprise unit crop insurance, and allowing adjustments in actual production history (APH) to establish insurable yields to be based on 70% of the applicable transitional yield rather than on 60% of the transitional yield.

Response from Tim Weber, President, Crop Insurance Division, Great American Insurance Company

Questions Submitted By Hon. Robert T. Schilling, a Representative in Congress from Illinois

Question 1. Can you provide your perspective on how the crop insurance program performed in 2011? Was it effective?

Answer. Yes, I believe the crop insurance program performed extremely well in 2011, proving that it is both an effective risk management tool for farmers and their lenders, as well as an efficiently delivered program by crop insurance companies and agencies.

As I said in my testimony, 2011 was a year for the record books. It was perhaps one of the most destructive weather years in history, with severe droughts in the Southern Plains, hard freezes in Florida, flooding along the Mississippi and Missouri Rivers, tropical storms in the South and Northeast, and a broad swath of destruction in the Central Plains. This weather condition set the stage for the program making record indemnity payments, while, as reported by RMA, registering no complaints by policyholders calling for *ad hoc* disaster assistance.

I believe this outcome for the year means the program was applied to farmers' enterprises in a manner that provided very appropriate coverage levels and the resulting claims were settled accurately and timely. These outcomes are the hallmark characteristics of an effective insurance program, especially for the Federal crop insurance program.

Question 2. What rate of return do the companies need to sustain the current level of service being provided to the farmers without disrupting the delivery system?

Answer. Crop insurance companies require an average rate of return that is competitive with their alternative uses of capital in order to ensure that U.S. farmers and ranchers will continue to receive the continued high levels of service and efficiency they have come to expect from the private delivery system. Because companies within the crop insurance industry differ with respect to their scale of operation, regional spread of business, and organizational structure, there is no single "rate" that can be ascribed to the industry.

The President's 2013 Budget proposal seeks to reduce the overall rate of return to the companies. Unfortunately, the President's Budget and other recent statements by the Department of Agriculture regarding the rate of return have confused the issue greatly. There are serious questions about the numbers used to define and determine the industry's rate of return. Statements from the Administration confuse basic financial concepts used to calculate industry returns and fail to take into account that industry returns vary over time and differ among geographic regions. Industry officials have met with the USDA to discuss these concerns and look forward to continued dialogue.

Among the specific concerns voiced about the Administration's estimates, which are as much as double the industry's estimates, are that they:

- Assume that government Administrative and Operating expense (A&O) payments to companies on behalf of producers cover all program delivery costs, which they do not;
- Fail to account for certain other operational costs such as reinsurance; and
- Ignore recent key changes in the program.

Industry underwriting gains and A&O were reduced as part of the 2011 SRA negotiations. As a result of the 2011 SRA, the funding reduction to the private delivery system was approximately $6 billion over 10 years. More recently, RMA revised its ratemaking procedures, which sharply reduced premium rates for corn and soybeans. RMA plans a second phase of premium reductions in 2013, which will be beneficial to farmers, but will further reduce underwriting gains. At this point, the anticipated after-tax return on equity for the industry will be well below the level once indicated to be sustainable. Once all of the relevant factors are taken into account, the industry-wide expected return on equity is expected to be in the low single digits, significantly less than the industry's cost of capital.

Additional points to keep in mind are that returns earned by the industry are not guaranteed. Companies are exposed to considerable risk that may cause their results to vary widely from year to year, and from region to region. The high degree of risk of return to the Industry is not adequately considered in any analysis provided by the government. Furthermore, an adequate rate of return at the national level may not ensure an adequate return for individual states. Certain states, particularly in the Southern Plains, have extremely low or even negative expected rate of return, which has serious implications for the viability of the private delivery system in those regions.

As the 2012 Farm Bill debate continues, it is hoped that everyone recognizes that the system is working exactly as Congress designed by reducing taxpayer risk and speeding relief to growers when they need it the most. That is why farmers and their bankers are such proponents of the existing crop insurance structure and have asked that it not be weakened further. We are doing more with less and fear that additional reductions would undermine the successful public-private partnership that took more than 3 decades to build.

Question 3. What are your thoughts on the impact of FSA delivery of any portion of crop insurance services to the producer? How does this impact the approved insurance providers currently offering these services?

Answer. As I said in my testimony, we believe the private sector, not the government, is the best way to provide the individual risk management information and tools that are indispensable for producers today. We understand that is the way farmers and ranchers want the program to operate.

The impact of FSA delivery of crop insurance does not have to be left to guesswork. There is a recorded history and it was not a successful experience for farmers or the program. In the almost 3 decades since FSA was involved in delivering activities, the crop insurance program has grown in size and complexity. This development suggests it would be even more difficult for agency employees to perform at the level of service that is expected by farmers today. Therefore, I believe the greatest impact stemming from government delivery of any part of the crop insurance program would be a reduction in service to farmers in terms of satisfaction with coverage decisions and general processing of required reports and claims processing.

Approved insurance providers have invested in human and capital resources to effectively and efficiently meet the demands of delivering the full array of services association with the Federal Crop Insurance Program. This investment produced the excellent result recorded for the record indemnity year of 2011. Carving out some responsibility for FSA would compromise the investments made by approved insurance providers to satisfy their commitments under the terms and conditions of the SRA.

The best observation I can make is that our customers—the farmers—are satisfied with private sector delivery of the program and we are pleased to continue serving the risk management needs of farmers with the Federal Crop Insurance Program. Therefore, I encourage Congress to continue the delivery system that is in place today. It is working for the farmer.

FORMULATION OF THE 2012 FARM BILL (ENERGY AND FORESTRY PROGRAMS)

FRIDAY, MAY 18, 2012

House of Representatives,
Subcommittee on Conservation, Energy, and Forestry,
Committee on Agriculture,
Washington, D.C.

The Subcommittee met, pursuant to call, at 11:05 a.m., in Room 1300, Longworth House Office Building, Hon. Glenn Thompson [Chairman of the Subcommittee] presiding.

Members present: Representatives Thompson, Goodlatte, Gibbs, Tipton, Southerland, Roby, Huelskamp, Hultgren, Ribble, Noem, Holden, Schrader, Owens, Costa, and Walz.

Staff present: Brent Blevins, Tamara Hinton, Brandon Lipps, Josh Maxwell, Mary Nowak, Debbie Smith, Patricia Straughn, Lauren Sturgeon, Wyatt Swinford, Suzanne Watson, John Konya, Liz Friedlander, Lisa Shelton, Anne Simmons, and Caleb Crosswhite.

OPENING STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

The Chairman. Good morning everyone. This hearing of the Subcommittee on Conservation, Energy, and Forestry to discuss energy and forestry programs in advance of the 2012 Farm Bill will come to order.

First of all, let me extend my apologies. Votes have a way of getting in the way of things here. And so, I apologize for the delay of the convening of this Subcommittee hearing. I really appreciate the patience of all those who are here, certainly our witnesses. And we are looking forward to hearing your testimony.

Let me get started by saying this is the final hearing that the Subcommittees will hold to review the farm bill programs before writing the legislation next month.

We had witnesses from USDA testify before the Subcommittee last summer offering us information on the scope and purpose of each program. And today we will hear from stakeholders who work with these programs and can offer insight on ways to improve their functionality.

The first energy title was written in the 2002 Farm Bill to help spur the development of renewable fuels across rural America. It was designed to help develop feedstocks, renewable fuels and increase energy efficiency as well as energy supplies for farmers and rural Americans. The 2008 Farm Bill expanded the energy title and committed more than $1 billion in mandatory funding to existing and new energy programs. This money was provided for the purpose of developing advanced biofuels beyond corn ethanol.

There are many examples of agricultural resources in my Pennsylvania district that can be used for the production of advanced biofuels. Timber is a form of renewable biomass and can be used for energy or heat production. Many of our dairy farmers utilize anaerobic digesters to convert waste into renewable energy.

Programs such as the Biomass Crop Assistance Program, better known as BCAP, were created with the purpose of developing dedicated energy crops to foster the creation of the next generation of advanced biofuels. And this program has received over $900 million in appropriations. It is fair for this Subcommittee to ask whether or not this program has achieved its purpose, whether or not it needs to be altered in some ways, and if there are new sources of biomass established for energy production as a result of this program.

Other programs, like the Rural Energy for America Program, commonly known as REAP, were expanded to better assist rural America's producers and small businesses to implement energy efficiency measures and renewable energy systems.

We should be certain that farm bill energy programs do not favor one region over another and that the programs are operating as Congress intended. I should note that the last two farm bills were written during more favorable budgetary times than the situation we find ourselves today with the Federal deficit and the increasing national debt.

Indeed, 37 programs in the farm bill do not have a budget baseline beyond its expiration, including every core program in the energy title. Now this means that not only will we not have the $1 billion that was made available for the last farm bill, but we will not have allocated any mandatory money for continuing these programs. This is a tremendous challenge in these fiscal times as we look for ways to cut spending and make government more efficient, yet still achieve our desired goals.

Our first panel of witnesses will offer us their feedback on what is most important to them in the energy title given budget constraints we face moving forward. Our second panel of witnesses will discuss forestry in the farm bill. Our Committee shares jurisdiction of forestry matters with the Natural Resources Committee. Our Committee's jurisdiction over forestry includes state and private forestry, landowner assistance programs, forestry research, as well as general oversight of the Forest Service.

Over the past year and a half, this Subcommittee has been very engaged with the Forest Service, which, as many of you know, is located within the Department of Agriculture.

Several Members of the Subcommittee, including myself, have forest lands in their districts and appreciate the importance of forestry in supporting a healthy and vibrant rural America. But proper forest management and the role of Forest Service goes far beyond the interests of the Members of this Subcommittee. The Forest Service manages 155 National Forests and 20 Grasslands, which makes up 193 million acres across this great nation.

Now since their inception, National Forests have been intended for multiple uses, which include timber harvesting, energy production, mineral extraction and recreational activities. The forestry title of the 2008 Farm Bill included several diverse provisions pertaining to all aspects of forestry, including the forestry sector's participation in conservation and energy programs. Though many of the forestry programs do not need to be reauthorized this farm bill, it is important for us to review these programs to be ensure that they are being carried out in a manner consistent with their purpose.

We will hear ideas for improving program delivery for forest landowners and those in the timber industry, and we will also hear about tools the Forest Service can use to promote timber harvesting, which is critical for forest health across America.

In addition to forestry matters, our witnesses in the second panel will discuss related topics such as how forestry fits into the discussion of energy and conservation program and the regulation of forest logging roads.

I want to briefly address the topic of forest road regulations, since I know it affects several of our witnesses today. Now I have been very concerned about this matter since the Ninth Circuit ruled last year that forest roads can be considered a point source under the Clean Water Act, and therefore, subject to permitting process before any trees can be cut. The Ninth Circuit decision has been appealed to the Supreme Court. And if the Court does not choose to hear the case, it is likely the EPA will move forward with applying the decision nationwide, putting a tremendous economic burden on loggers, forest owners and everyone who depends on these groups.

This will be an unnecessary action given that the best management practices administered by states since 1976 have worked effectively and have not put an undue burden on the forest products industry. Now we will continue to monitor these developments if the EPA moves forward with a nationwide permitting process. I believe Congress must act to clarify the existing state specific best management practices that are adequate for protecting our water sources. Further regulations are unnecessary and will carry a heavy burden for rural America.

I want to thank our witnesses for being here today, and I look forward to working with you as we move forward on this process.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Good morning. I want to welcome everyone to this Conservation, Energy, and Forestry Subcommittee hearing to examine farm bill energy and forestry programs.

This is the final hearing the Subcommittees will hold to review farm bill programs before writing legislation next month.

We had witnesses from USDA testify before the Subcommittee last summer, offering us information on the scope and purpose of each program.

Today, we will hear from stakeholders who work with these programs and can offer insight on ways to improve their functionality.

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It was designed to help develop feedstocks for renewable fuels and to increase energy efficiency, as well as energy supplies, for farmers and rural Americans.

The 2008 Farm Bill expanded the energy title and committed more than $1 billion in mandatory funding to existing and new energy programs. This money was provided for the purpose of developing advanced biofuels beyond corn ethanol.

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Though many of the forestry programs do not need to be reauthorized this farm bill, it is important for us to review these programs to ensure that they are being carried out in a manner consistent with their purpose.

We will hear ideas for improving program delivery for forest landowners and those in the timber industry. We will also hear about tools the Forest Service can use to promote timber harvesting, which is critical for forest health across America.

In addition to forestry matters, our witnesses on the second panel will discuss related topics, such as how forestry fits into the discussion of energy and conservation programs.

I thank our witnesses for being here today and look forward to working with you as we move forward in this process.

The CHAIRMAN. And I now yield for purposes of an opening statement to the Ranking Member, my colleague from Pennsylvania, Mr. Holden.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Mr. HOLDEN. Thank you, Mr. Chairman, and thank you for having this hearing today. And I would like to thank our witnesses and guests for being here as well. This hearing presents an important opportunity for Members of the Subcommittee to look at USDA's energy and forestry programs in advance of the next farm bill.

The 2008 Farm Bill included many new provisions to ensure American agriculture will play a role in moving our country toward energy independence. The bill also expanded many of the renewable energy programs originally authorized in the 2002 Farm Bill. The 2008 Farm Bill encouraged a move toward advanced biofuels by promoting research, development and demonstration of biomass-based renewable energy.

The bill also provided close to $1 billion in investments demonstrating to a promising but fragile industry our commitment, demonstrating our commitment to renewable energy production. Unfortunately, implementing many of these energy title programs has been slow, leading to uncertainty in an industry we intended to strengthen and support. It is also unfortunate that the farm bill's energy title does not have mandatory money for these programs once the bill expires. This puts us in a difficult situation made even more so during this challenging fiscal environment.

Similarly, the forestry title which impacts forest land management in the 155 National Forests and 20 Grasslands in the National Forest System does not have any mandatory funding. To accomplish our goal of a well-managed agency dedicated to forest stewardship that continues to meet the needs of present and future generations, we must make sure that forestry title policies are fulfilling the mission of quality land management for multiple uses.

At the same time, we have to ensure that forest landowners continue to have access to conservation programs in order to further private forest land conservation. To sustain healthy, diverse and productive forest and expand domestic renewable energy, we must all work together and make certain we spend taxpayers dollars wisely.

Thank you again, Mr. Chairman, for having this hearing and I look forward to hearing from our witnesses.

[The prepared statement of Mr. Holden follows:]

PREPARED STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

I would like to thank our witnesses and guests for coming today. This hearing presents an important opportunity for Members of the Subcommittee to look at USDA energy and forestry programs in advance of the next farm bill.

The 2008 Farm Bill included many new provisions to ensure American agriculture will play a role in moving our country toward energy independence. The bill also expanded many of the renewable energy programs originally authorized by the 2002 bill

The 2008 Farm Bill encouraged a move toward advanced biofuels by promoting research, development and demonstration of biomass-based renewable energy. The bill also provided close to $1 billion in investments, demonstrating to a promising but fragile industry our commitment to renewable energy production.

Unfortunately, implementing many of these energy title programs has been slow, leading to uncertainty in an industry we intended to strengthen and support. It is also unfortunate that the farm bill's energy title does not have mandatory money for these programs once the bill expires. This puts us in a difficult situation, made even more so during this challenging fiscal environment.

Similarly, the forestry title, which impacts forestland management in the 155 National Forests and 20 Grasslands in the National Forest System, does not have any mandatory funding.

To accomplish our goal of a well-managed agency dedicated to forest stewardship that continues to meet the needs of present and future generations, we must make sure that forestry title policies are efficient. At the same time, we have to ensure that forest landowners continue to have access to conservation programs in order to further private forestland conservation.

To sustain healthy, diverse and productive forests and expand domestic renewable energy we must all work together and make certain we spend taxpayer dollars wisely.

I look forward to hearing from the today's witnesses.

The CHAIRMAN. I thank the gentleman. The chair would request that other Members submit opening statements for the record so the witnesses may begin their testimony and ensure there is ample time for questions.

[The prepared statement of Mr. Schrader follows:]

PREPARED STATEMENT OF HON. KURT SCHRADER, A REPRESENTATIVE IN CONGRESS FROM OREGON

Last year the 9th Circuit Court of Appeals ruled that forest roads used for timber harvest are "point sources" requiring Federal industrial permits under the Clean Water Act. This decision ignored Congressional intent and EPA's 35 year policy recognizing roads as nonpoint sources. It has now been appealed to the Supreme Court, which will soon decide whether or not to review the case.

EPA is also expected to announce that it will amend its rules to address the Ninth Circuit decision sometime in 2013. While I appreciate their interest in helping forest landowners address concerns raised in the 9th Circuit decision, a rulemaking will not provide the certainty needed.

Federal, state and private sector experts agree that replacing BMPs with permits will in fact NOT improve water quality. Requiring permits or some other Federal regulatory system for forest roads would needlessly impose potentially billions of dollars of new paperwork and monitoring costs on forest owners and states and increase the already staggering amount litigation. A recent study concluded that forest management and timber production costs would increase by $654 million. That study also found that the decision would result in over 24,000 jobs lost, over 6,000 in my state alone. In a time of such economic distress, this is not the time to support initiatives that would reduce jobs and increase spending.

I am a lead sponsor for a bill that would codify EPA's 35 year treatment of forest roads as a nonpoint source. A short-term provision of this language was passed in the Omnibus Appropriations bill last December. If the Supreme Court reviews the Ninth Circuit decision, we should extend that language so the Court can do its work. If the Supreme Court does not review the case, then Congress will need to step in and fix this issue once and for all.

The CHAIRMAN. So I would like to welcome our first panel of witnesses who are now seated at the table. In this first panel we will be hearing, we are joined by the Honorable Jim Greenwood, a Pennsylvania Congressman and someone I have enjoyed the opportunity to work with going back to his state legislature days. He is currently President and CEO of the Biotechnology Industry Organization located here in Washington, DC.

We are also joined Mr. Ryan Stroschein—Stroschein? You only come into this world and leave with one thing and that is your name, so I hate to really mess them up—Director of Agriculture Energy Coalition here in Washington. Somewhat of a neighbor of mine, just over the line from Mifflintown Pennsylvania in Juniata County, Mr. Steve Reinford, Owner and Operator of Reinford Farms; Mr. Jerry Taylor, President and Chief Executive Officer, MFA Oil, Co-Founder of MFA Oil Biomass LLC in Columbia, Missouri; and Mr. Gary Haer, Chairman of the National Biodiesel Board, Washington, D.C.

So welcome, gentlemen. Thank you for being here and bringing your expertise and your experience to this Subcommittee hearing. And Congressman Greenwood, please begin when you are ready.

STATEMENT OF HON. JAMES C. GREENWOOD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BIOTECHNOLOGY INDUSTRY ORGANIZATION, WASHINGTON, D.C.

Mr. GREENWOOD. Thank you, Chairman Thompson, Ranking Member Holden, and distinguished Members of the Subcommittee. I thank you and appreciate the opportunity to be with you today.

My name is Jim Greenwood, I am the President and CEO of the Biotechnology Industry Organization. BIO is the world's largest biotechnology organization with more than 1,100 members worldwide. With its broad membership, innovative industrial and agricultural biotechnology companies are developing new feedstocks and biological catalysts for production of advanced biofuels, renewable chemicals and biobased products.

Because these feedstocks, manufacturing methods, and products are based on plants and biological processes, they are more efficient, sustainable and environmentally friendly. Importantly, the development and use of biomass for fuels and chemicals in an American-biobased economy by necessity cannot be outsourced to other countries. Ten years ago this week, less than a year following the attacks of September 11, President Bush signed into law a farm bill that, for the first time, embraced the vital role American farmers and foresters can and must play in producing domestic energy, and therefore, improving national security and rural economic prosperity.

Because of bipartisan Congressional support in 2002, and again during the 2008 Farm Bill, agricultural energy programs are revitalizing rural communities, reducing farmer dependence on commodity support programs, and ushering a new generation of advanced biofuels, renewable chemicals and biobased products to the cusp of commercialization.

In short, the farm bill energy programs are working, and BIO member companies are beginning to put steel in the ground. And please allow me to share with you a few examples. There is the first slide. INEOS Bio and its joint venture partner, New Planet Energy, are preparing to open the Indian River County Bio Energy Center near Vero Beach, Florida, within the next few weeks. The biorefinery is a major landmark for this country. It is the first commercial cellulosic refinery. And as you can see, it is for real. It is a lot of steel in the ground there.

The Biorefinery Assistance Program, which is a valuable farm bill energy initiative, helped INEOS Bio obtain debt financing from a Farm Credit agency with a long history of working with USDA lending programs. Lending, in turn, created over $130 million in private investment for a project that will produce 8 million gallons of cellulosic ethanol and 6 megawatts of renewable electricity per year from renewable biomass such as yard waste or municipal solid waste and create 380 direct or indirect jobs.

Raising private capital investments to build this first-of-its-kind facility would have been nearly impossible in today's financial environment without the Biorefinery Assistance Program.

That is ZeaChem's project. It is based in Lakewood, Colorado. It is using biotechnology breakthroughs to convert fast growing poplar trees to chemicals and cellulosic ethanol in central Oregon. Another valuable farm bill energy program, the Biomass Crop Assistance Program, or BCAP, helps farmers in the counties surrounding the facility to grow the trees that will feed both the demonstration project and the commercial facility when it is completed in the next few years. ZeaChem's commercial biorefinery will employ 100 people and invest several hundred million dollars in local infrastructure. It will also provide employment opportunities to another 442 people.

Coskata, based in Warrenville, Illinois, is leveraging the Biorefinery Assistance Program to secure private capital for a commercial scale cellulosic biorefinery in Greene County, Alabama, that is expected to create as many as 1,000 new jobs.

Farm bill energy programs such as the Biobased Markets Program are also fostering innovation and domestic job creation in the renewable chemicals and biobased product sector.

This is a project of Myriant. It is one of our BIO members investing in the United States by building a $30 million pound per year commercial succinic acid biorefinery in Lake Providence, Louisiana. The biorefinery will create 50 full-time jobs and will revitalize the Port of Lake Providence.

The Biobased Markets Program is expanding consumer awareness of these promising alternatives to petroleum-derived chemicals and products through consumer labeling and preferred procurement procedures. Opening the Biorefinery Assistance Program to renewable chemicals would further accelerate these promising technologies.

My written testimony, which you have before you, includes several additional examples of the tremendous impact energy title programs are having in rural economies. Biotechnology is unlocking the potential of agriculture and forestry to create new opportunities like these for rural economic prosperity and energy security. Farm bill energy programs, such as the Biorefinery Assistance Program, BCAP, and the Biobased Markets Program, in combination with the complementary Federal policies like the renewable fuel standard and supportive tax policies are speeding technologies to commercial reality.

It is vital for our nation's future that we continue investments in America's energy and agricultural futures as the Senate Agriculture Committee acknowledged when it passed mandatory funding for these programs in the bipartisan bill that passed the Committee last month on a vote of 16–5. I urge this Committee to do its part as well and to reauthorize farm bill energy programs with meaningful mandatory funding.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Greenwood follows:]

PREPARED STATEMENT OF HON. JAMES C. GREENWOOD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BIOTECHNOLOGY INDUSTRY ORGANIZATION, WASHINGTON, D.C.

The Biotechnology Industry Organization (BIO) is the world's largest biotechnology organization, with more than 1,100 members worldwide. Within its broad membership, innovative industrial and agricultural biotechnology companies are developing new feedstocks and biological catalysts for production of advanced biofuels, renewable chemicals, and biobased products. Because these feedstocks, manufacturing methods, and products are based on plants and biological processes, they are more efficient, sustainable and environmentally friendly. Importantly, the development and use of biomass for fuels and chemicals in an American biobased economy, by necessity, cannot be outsourced to other countries.

Ten years ago this week, less than a year following the attacks of September 11, 2001, President George W. Bush signed into law a farm bill that, for the first time, embraced the vital role American farmers and foresters can—and must—play in producing domestic energy and therefore improving national security and rural economic prosperity.

Because of bipartisan Congressional support in 2002, and again during the 2008 Farm Bill, agricultural energy programs are revitalizing rural economies, reducing farmer dependence on commodity support programs, and ushering a new generation of advanced biofuels, renewable chemicals, and biobased products to the cusp of commercialization. In short this program is working and our member companies are beginning to put steel in the ground. Please allow me to share a few examples:

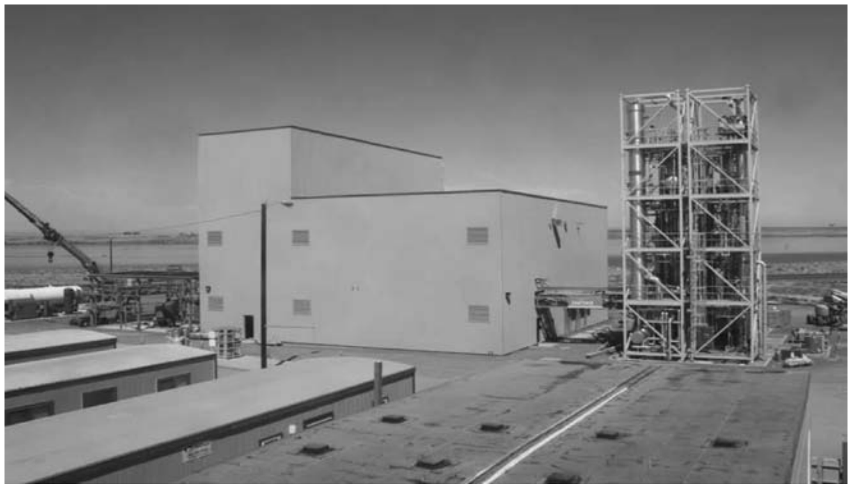
(1) INEOS Bio and its joint venture partner, New Planet Energy, are preparing to open the Indian River County BioEnergy Center near Vero Beach, Florida, later this year. This biorefinery is a major landmark for the country—the first commercial cellulosic biorefinery.

INEOS Bio New Planet Energy, Indian River Bioenergy Center, Vero Beach, Fla. April 3, 2012.

The Biorefinery Assistance Program, which is a valuable farm bill energy initiative, helped INEOS Bio obtain debt financing from a farm credit agency with a long history of working with USDA lending programs. Lending, in turn, created over $130 million in private investment for a project that will produce 8 million gallons of cellulosic ethanol and 6 megawatts of renewable electricity per year from renewable biomass, such as yard waste or municipal solid waste, and create 380 direct or indirect jobs. Raising private capital investment to build this first-of-a-kind facility would have been nearly impossible in today's financial environment without the Biorefinery Assistance Program.

(2) ZeaChem, based in Lakewood, Colorado, is using biotechnology breakthroughs to convert fast-growing poplar trees to chemicals and cellulosic ethanol in central Oregon. Another valuable farm bill energy program, the Biomass Crop Assistance Program, or BCAP, helps farmers in the county surrounding the facility to grow the trees that will feed both the demonstration project and the commercial facility when it is completed in the next few years. ZeaChem's commercial biorefinery will employ

100 people and invest several hundred million dollars in local infrastructure; it will also provide employment opportunities to another 442 people.



ZeaChem, Inc., Cellulosic Biofuel Demonstration Biorefinery, Boardman, Ore. August 2011.

(3) Coskata, based in Warrenville, Illinois, is leveraging the Biorefinery Assistance Program to secure private capital for a cellulosic biorefinery in Greene County, Alabama, that is expected to create as many as 1,000 new jobs.

Myriant, Bio-Succinic Acid Commercial Biorefinery, Lake Providence, La. April 2012.

Farm bill energy programs, such as the Biobased Markets Program, are also fostering innovation and domestic job creation in the renewable chemicals and biobased products sector. Myriant, for example, is one BIO member investing in the United States by building a 30 million pound per year commercial succinic acid biorefinery in Lake Providence, Louisiana. The biorefinery will create 50 full time jobs and will revitalize the Port of Lake Providence. The Biobased Markets Program is expanding consumer awareness of these promising alternatives to petroleum-derived chemicals and products through consumer labeling and preferred procurement procedures.

Biotechnology is unlocking the potential of agriculture and forestry to create new opportunities like these for rural economic prosperity and energy security. Farm bill energy programs, such as the Biorefinery Assistance Program, BCAP, and the Biobased Markets Program, in combination with complimentary Federal policies like the Renewable Fuel Standard and supportive tax policies, are speeding technologies to commercial reality. We must continue investments in America's energy and agricultural future, much like the Senate Agriculture Committee acknowledged when it passed mandatory funding for these programs in the bipartisan bill that passed the Committee last month on a vote of 16–5. I urge this Committee to do its part as well and to reauthorize farm bill energy programs with meaningful mandatory funding.

For purposes of my written testimony, I attach hereto the following supporting documents as references to the Subcommittee:

Appendices

Appendix A—Timeline and photo book of energy title program results

Appendix B—Energy Title "program-by-program" job creation and other statistics

Appendix C—Detailed justification of Biorefinery Assistance Program

Appendix D—USDA analysis of BCAP program reforms under final rulemaking

Appendix E —Letter of support for farm bill energy programs signed by over 100 organizations

APPENDIX A

Farm Bill Energy Title Timeline * of a Successful Policy Initiative 2012

Date	Event
February 13, 2002 Enactment of the Farm Security and Rural Investment Act of 2002 (Pub. L. 107–171)	Enactment of the first-ever farm bill energy title, with comprehensive approach to agriculture energy development and a focus on developing renewable energy, including biofuels and biobased products. Enactment of **Biobased Product Purchasing Requirement Program:** • Required Federal agencies to purchase products from a list of environmentally preferable biobased products provided they were reasonably comparable in price/performance/availability. • Funded at $8M over the life of the 2002 Farm Bill. Enactment of the **Biomass Research and Development Grant Program** for biorefinery construction: • Awarded grants of up to 50% to offset the cost of developing/constructing biorefineries to demonstrate the commercial viability of converting biomass to fuels or chemicals. • Funded $60M over the life of the program.
2002	Cargill-Dow joint venture, which eventually becomes NatureWorks LLC, opens PLA resin manufacturing facility in Blair, Neb., producing 70,000 tons and employing 230 people, following 3 years of pilot production.
February 10, 2005	Final guidelines issued for designating biobased products for Federal reference.
March 2006	USDA BioPreferred Program designates first six categories of biobased products for preferred Federal purchasing: mobile equipment hydraulic fluids; roof coatings; water tank coatings; diesel fuel additives; penetrating lubricants; and bedding, bed linens, and towels.
November 2006	DuPont Tate & Lyle opens commercial biorefinery, producing 100 million pounds of PDO annually, in Loudon, Tenn., following 6 years of pilot production.

Farm Bill Energy Title Timeline * of a Successful Policy Initiative 2012—Continued

Date	Event
June 11, 2007	Notice inviting applications for biomass research and development grants. This notice, issued 5 years after the 2002 Farm Bill, was the first funding opportunity to help with the costs of biorefineries.
May 2008	USDA BioPreferred Program designates additional 27 categories of biobased products for preferred Federal purchasing.
May 22, 2008 Enactment of the Food, Conservation, and Energy Act of 2008 (Pub. L. 110–234)	Enactment of the **Biobased Markets Program:** • Funded at $9M over the life of the farm bill (2008–2012). Enactment of the **Biorefinery Assistance Program:** • Provides loan guarantees for the development, construction, and retrofitting of commercial-scale advanced biorefineries. • Funded at $320M over the life of the farm bill (2008–2012). Enactment of the **Biomass Crop Assistance Program (BCAP):** • Provides payments to rural landowners to establish, produce, and deliver biomass feedstocks for biofuels production. • Funded at "such sums as necessary".
July 2008	U.S. International Trade Commission study, "Industrial Biotechnology: Development and Adoption by the U.S. Chemical and Biofuel Industries," counts 5,700 workers in the biobased industry.
July 2009	NatureWorks LLC doubles production capacity to 140,000 tons of PLA at Blair, Neb., biorefinery.
October 2009	USDA BioPreferred Program designates additional nine categories of biobased products for preferred Federal purchasing.
December 2009	USDA offers conditional commitment and begins to negotiate loan guarantee for Sapphire Energy under the **Biorefinery Assistance Program.**
October 2010	USDA BioPreferred Program designates additional nine categories of biobased products for preferred Federal purchasing.
October 27, 2010	Final Rule issued on the **Biomass Crop Assistance Program.** This final rule importantly reformed the CHST matching payment program to incentivize collection and delivery of only that biomass that would otherwise be uneconomical to retrieve and convert into energy.
December 2010	POET Biorefining facilities in Emmetsburg, Iowa, Scotland, S.D. and Chancellorsville, S.D. qualify as Biomass Conversion Facilities under **BCAP** rule. Myriant breaks ground on a 30 million pound commercial succinic acid facility in Lake Providence, La.
January 5, 2011	USDA offers conditional commitments and begins to negotiate loan guarantees for INEOS Bio, Enerkem and Coskata, under the **Biorefinery Assistance Program.** INEOS Bio has operated a pilot biorefinery in Fayetteville, Ark., since 2003. Enerkem has operated a demonstration biorefinery in Quebec since 2009. Coskata operated a demonstration biorefinery in Madison, Pa., for 2 years, beginning in 2009.

Farm Bill Energy Title Timeline * of a Successful Policy Initiative 2012—Continued

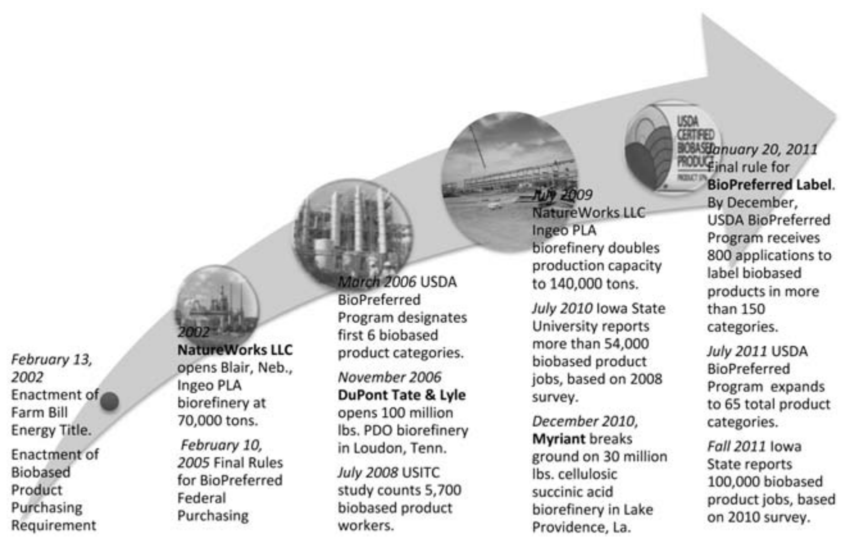
Date	Event
January 20, 2011	Final Rule issued on the **Biobased Markets Program. Final Rule issued for "BioPreferred" Voluntary Labeling of Biobased Product.** By the end of 2011, BioPreferred had received applications for the certification of more than 800 individual products in 150 different categories, ranging from industrial supplies to personal care items. BioPreferred has identified more than 25,000 products available on the market.
February 3, 2011	USDA Inspector General Report criticizing the initial implementation of the **Biomass Crop Assistance Program** and making recommendations for reforming its administration.
February 9, 2011	INEOS Bio New Planet Energy breaks ground in Vero Beach, Fla., on the Indian River BioEnergy Center, a biorefinery that will produce 8 million gallons of cellulosic ethanol and 6 megawatts of power when fully operational. The project creates 175 construction jobs.
February 14, 2011	Interim Final Rule issued on the **Biorefinery Assistance Program.**
March 11, 2011	Notice of Funds Availability (NOFA) inviting applications for the **Biorefinery Assistance Program** through May 10, 2011.
May 2011	Farm Service Agency (FSA) announces the first **Biomass Crop Assistance Program** project area, with up to 50,000 acres across 39 counties in central and western Missouri and eastern Kansas, producing up to 150,000 tons per year. 700,000 potential U.S. jobs could be created pursuant to the **Biomass Crop Assistance Program.** USDA BCAP Fact Sheet *http://www.fsa.usda.gov/Internet/FSA_File/bcap_update_may2011.pdf*.
June 6, 2011	Extension of the NOFA inviting applications for the **Biorefinery Assistance Program** to July 6, 2011.
July 2011	USDA **BioPreferred Program** designates additional 14 categories of biobased products for preferred Federal purchasing. Farm Service Agency announces four new **Biomass Crop Assistance Program** project areas, with more 78,000 acres across more than 100 counties in five states.
August 2011	INEOS Bio New Planet Energy closes private financing, supported by a **Biorefinery Assistance Program** loan guarantee, of Indian River BioEnergy biorefinery. The project employs 50 permanent operators.
September 2011	Farm Service Agency announces four additional **Biomass Crop Assistance Program** project areas, with more than 19,000 acres across 31 counties in four states.
September 15, 2011	Final Rule for **Biomass Crop Assistance Program** amended to provide specifically for prioritizing limited program funds in favor of the "project area" portion of BCAP, with any remaining funds to be eligible for CHST payments.
November 2011	Sapphire Energy closes financing for an algal biofuel biorefinery in Columbus, N.M., supported by USDA **Biorefinery Assistance Program** loan guarantee. Sapphire began construction in June 2011, and will employ 60 operational personnel. Indirect jobs may total 750.

Farm Bill Energy Title Timeline * of a Successful Policy Initiative 2012—Continued

Date	Event
January 2012	USDA offers conditional commitments and begins negotiations for loan guarantees with ZeaChem and Fiberight. ZeaChem began operation of a demonstration biorefinery in Boardman, Ore., in December 2011. Fiberight began a pilot cellulosic ethanol facility in Virginia in 2009 and is working to convert an existing Blairstown, Iowa waste-to-energy facility. The projects employ 100 people and create 338 construction jobs.
January 27, 2012	Notice of Funds Availability for the **Biorefinery Assistance Program** announces there will be no funds available for the program for FY 2012.

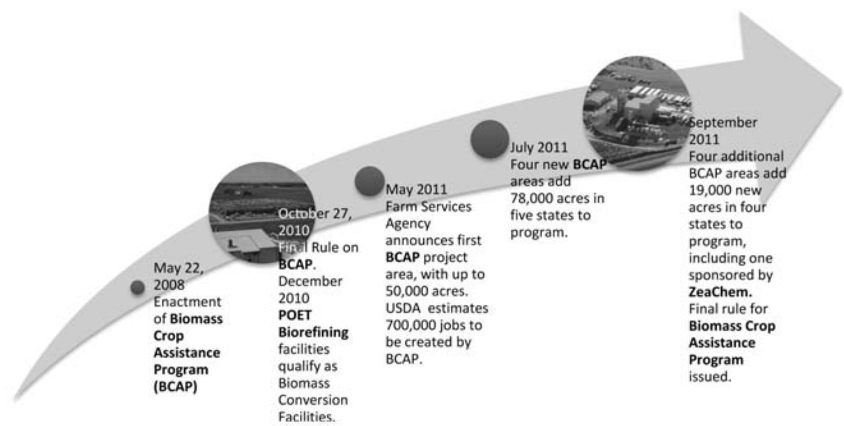
Source: BIO.

Timeline: BioPreferred



Timeline: Biorefinery Assistance Program

Timeline: Biomass Crop Assistance Program



Abengoa Bioenergy, Hugoton, Kans.

26.5 million gallons per year, cellulosic ethanol.
Start Date: 4Q 2013.

Figure 1: Abengoa biorefinery project stack yard.

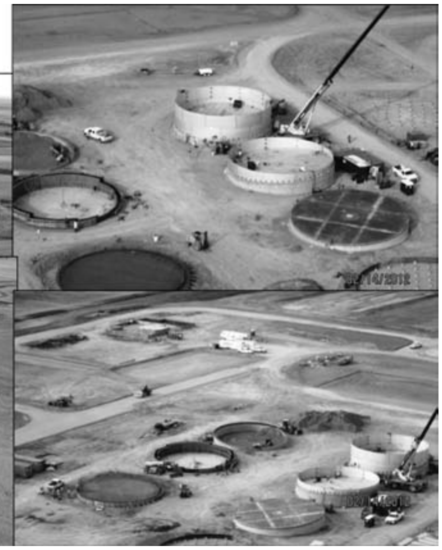


Figure 2: Abengoa biorefinery construction progress, Feb. 2012.

DuPont Tate & Lyle, Loudon, Tenn.

100 million lbs. per year, 1,3 propanediol.
Start Date: November 2006.

Figure 3: DuPont Tate & Lyle PDO Biorefinery.

Fiberight, Blairstown, Iowa

6 million gallon per year cellulosic ethanol.
Start Date: 2Q 2013.

Figure 4: Fiberight biorefinery undergoing renovation to cellulosic ethanol.

Gevo, Luverne, Minn.

22 million gallon per year biobutanol.
Start Date: 4Q 2012.

Figure 5: Gevo biorefinery undergoing renovation for biobutanol production.

INEOS New Planet Energy, Vero Beach, Fla.

8 million gallon per year cellulosic ethanol; 6 MW biomass electricity.
Start Date: 2Q 2012.

Figure 6: INEOS Bio New Planet Energy groundbreaking February 2011.

Figure 7: USDA Sec. Tom Vilsack checks construction progress, August 2011.

Myriant, Lake Providence, La.

30 million lbs per year of bio-succinic acid.
Start Date: Q1 2013.

Figure 8: Myriant construction progress March 2012.

NatureWorks, LLC, Blair, Neb.

140,000 tons per year PLA.
Start Date: 2002.

Figure 9: NatureWorks PLA biorefinery, in operation since 2002.

POET–DSM Advanced Biofuels, Emmetsburg, Iowa

25 million gallons per year cellulosic ethanol.
Start Date: 3Q 2013.

Figure 10: POET–DSM groundbreaking March 2012.

Figure 11: POET–DSM corn stover stack yard November 2011.

Sapphire Energy, Columbus, N.M.

1 million gallon per year integrated algal biorefinery.
Start Date: 1Q 2014.

Figure 12: Sapphire IABR construction progress November 2011.

Figure 13: Sapphire IABR ground preparation October 2011.

ZeaChem, Boardman, Ore.

250,000 gallon per year cellulosic ethanol and acetyl acid.
Start Date: 4Q 2011.

Figure 14: ZeaChem demonstration biorefinery, aerial view.

Figure 14: ZeaChem demonstration facility under construction, September 2011.

APPENDIX B

Energy Title Programs—Proven Effective

REAP

- REAP provides competitive grants and loan guarantees for a broad range of energy efficiency and renewable energy technologies so all agricultural sectors can benefit. Grants may not exceed 25% of the project cost. Loan guarantees are capped at $25 million per loan.
- REAP is a popular program with applications far exceeding resources, providing a long-lasting safety net by cutting input costs and developing revenue sources while serving the public by increasing energy security, cutting energy-related pollution and sparking rural economic development.
- REAP provides excellent value, as it requires a $3 match for each $1 of Federal funds and creates jobs, with the USDA estimating 15,000 jobs created or saved in 2010 and 2011.
- REAP has funded over 7,800 projects in every state in the union since 2003, benefitting every state.

Biorefinery Assistance Program

- 9003 is the key Federal program enabling the construction and development of next generation biorefineries.
- 9003 is a highly efficient program that has already unlocked hundreds of millions of dollars of private capital at minimal public cost.
- The nation's first commercial cellulosic biofuel production is expected to come online this summer at the INEOS Bio biorefinery in Vero Beach, Florida—thanks to a USDA biorefinery loan under 9003. This project is expected to create 380 high quality jobs in central Florida over the next year.
- The INEOS Bio project—and several more to follow in Mississippi, Iowa, Oregon and elsewhere—will provide a much needed technology demonstration that will hasten private investment in additional biorefinery construction and transition the industry to self sustainability.

BCAP

- BCAP provides funding for the establishment and maintenance of purpose-grown energy crops and for the collection, harvest, storage, and transportation of biomass material to approved energy conversion facilities.
- BCAP is the *only* Federal program targeted at the deployment of next generation biorefinery feedstocks. As such, it is vital to establishing a sustainable and reliable feedstock supply for the commercialization of cellulosic biofuels and bioproducts.
- USDA's October 2010 rulemaking fully resolved issues with the program's initial roll out.
- BCAP has helped establish innovative purpose-grown energy crop projects on over 150,000 acres across ten states, including Arkansas, Pennsylvania, Oklahoma, Kansas, Montana, and elsewhere. It is estimated that these projects will create more than 3400 jobs and will provide the feedstocks to produce approximately 2 million gallons of biofuels each year.

Biomass R&D Initiative

- BRDI funds critical research and development of advanced feedstocks and new uses of biomass for fuels, chemicals and power.
- BRDI research is paving the way for the transition to next-generation feedstocks, such as perennial grasses, short rotation woody crops, and agricultural/forestry residues—along with innovative new applications of that biomass
- BRDI funding has supported more than 30 key research projects in dozens of states, including South Dakota, Georgia, Nebraska, Iowa, Mississippi, and elsewhere

Biobased Markets Program

- The Sec. 9002 Biobased Markets Program is the key Federal program expanding markets and consumer awareness of renewable chemicals and biobased products

- 9002 has helped create hundreds of new American small businesses and thousands of new jobs producing home-grown biobased alternatives to imported petroleum-based products (source: USDA BioPreferred)
- 9002 is also helping to revitalize the domestic chemical manufacturing sector, bringing high quality manufacturing jobs back to hard-hit regions of the country, while provide new income opportunities for farmers and reducing our dependence on foreign oil—all at a very small price tag.

Biodiesel Education Program

- It is crucial that the public understands the benefits of biodiesel in order to build out the industry and increase demand for this advanced biofuel across the country.

APPENDIX C

The Biorefinery Assistance Program Is Vital To Advanced Biorefinery Construction & Commercialization

Background

The Federal Biorefinery Assistance Program ("the 9003 program") was authorized in Section 9003 of the Food, Conservation, and Energy Act of 2008 ("2008 Farm Bill"). The 9003 program provides for loans for the development, construction, and retrofitting of commercial-scale biorefineries. It also provides for grants to help pay for the development and construction costs of demonstration-scale biorefineries.

The 9003 program is a targeted grant and loan guarantee program in which loans are issued by private lenders. It is managed by the U.S. Department of Agriculture ("USDA"), a Federal agency with extensive experience in loan guarantee programs. This 9003 program and its signal of Federal support has become vital to unlocking private capital for next generation biorefinery construction.

USDA is the optimum agency to oversee the 9003 program, as it has decades of experience successfully administering loan guarantee programs for small businesses in rural areas. Despite the small risk of backing emerging technologies, the USDA's loan guarantee programs have been delivering overwhelmingly positive returns to taxpayers. In fact, USDA has a loan portfolio of over $100 billion, with more than 97 percent of those loans up-to-date on payments and supporting good jobs across the country.

Under the 9003 program, loans are issued by commercial banks, not the government. Applicants apply to USDA with a commercial bank partner, who has already done due diligence and will take on the majority of the risk. Banks working with the USDA also have decades of experience in commercial lending to small businesses. Companies receiving these loans have been required to invest a substantial amount of their own funds, so they have a clear incentive to succeed. Successful projects cost the taxpayer nothing, other than program administrative costs, making the 9003 program one of the most cost-effective Federal programs for technology deployment.

The purpose of the 9003 program is to help pioneer companies developing new technologies that contribute to U.S. energy independence attract private capital for construction. The program has just begun to issue awards, but already is helping to bridge the "valley of death" for next generation commercial biorefineries. These projects are making real progress, meeting benchmarks and creating high-quality jobs. Projects that recently received 9003 loan guarantees have been vetted by Federal officials, third party due diligence, and private investors. However, they are still vulnerable to external conditions, including economic and policy uncertainty.

Importance

This is a cost efficient program which has already spurred construction and development of several next generation biorefineries, including the ones described below. These biorefinery projects and advanced biofuels they will produce are yielding concrete results for taxpayers, supporting high-quality jobs, economic opportunity, while also contributing to our nation's energy security and independence. The first two loan guarantees listed below have been finalized, and the next two are currently working to finalize the loan guarantees they have been granted.

- **INEOS New Planet BioEnergy** in Vero Beach, Florida, finalized a $75 million private loan backed by USDA to build a biorefinery capable of producing 8 million gallons of cellulosic ethanol per year from agricultural vegetative waste, yard cuttings, wood and municipal solid waste ("MSW"). The plant will also have an electricity capacity of 6 MW. Construction is already approximately ⅓ complete, and is on schedule to be finished by the end of April 2012. Over 85 percent of the equipment for the project is being supplied by manufacturers in the U.S. **Associated Jobs: 50 permanent, 380 direct and indirect (including 275 construction jobs) over the next year.**

- **Sapphire Energy** finalized a $54.5 million loan guarantee to demonstrate an integrated algal biorefinery process that will cultivate algae in ponds, and will use dewatering and oil extraction technology to produce an intermediate that will then be processed into drop-in green fuels such as jet fuel and diesel. The project will be constructed in Columbus, New Mexico. **Associated Jobs: 750 direct and indirect.**
- **Coskata, Inc.** has been granted a provisional $250 million loan guarantee to construct and operate a biorefinery facility in rural western Alabama. The project will use woody biomass to produce 55 million gallons of ethanol per year. **Associated Jobs: 700 direct and indirect.**
- **Enerkem, Inc.** has been granted a provisional $80 million loan guarantee to build and operate a biorefinery in Pontotoc, Mississippi, which will be capable of producing 10 million gallons of ethanol per year, using 100,000 metric tons of dried MSW. **Associated Jobs: 70 permanent.**

Recommendation

The Biorefinery Assistance Program is one of the most effective programs under the energy title of the 2008 Farm Bill. It is very much a public-private program whose signal of Federal support has led, and has the opportunity to continue to lead, to construction of next generation biorefineries. These biorefineries create good long-lasting jobs and help increase U.S. energy independence and security. ***It is critical that the next farm bill reauthorize and fund the Biorefinery Assistance Program, and ensure that it supports the full range of biorefinery products. USDA will need new authority to include renewable chemicals and biobased products under the 9003 program.***

APPENDIX D

USDA FSA

FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

May 2011

Biomass Crop Assistance Program (BCAP)

Overview

BCAP, created in the 2008 Farm Bill, is a primary component of the domestic agriculture, energy, and environmental strategy to reduce U.S. reliance on foreign oil, improve domestic energy security, reduce carbon pollution, and spur rural economic development and job creation. BCAP provides incentives to farmers, ranchers and forest landowners to establish, cultivate and harvest biomass for heat, power, bio-based products and biofuels.

BCAP addresses a classic chicken-or-egg challenge around the start up of commercial scale bioenergy activities. If commercial-scale biomass facilities are to have sufficient feedstocks, then a large-scale energy crop must exist. Conversely, if profitable crop production is to occur, then viable consumers must exist to purchase the crop.

The federal Renewable Fuels Standard (RFS) requires 21 billion gallons of non-corn-starch biofuels in the national fuel supply by 2022 and new types of biomass feedstocks must be available to meet this requirement. Many bioenergy crops need several years to become established. Many bioenergy facilities need several years to reach commercial scale. BCAP serves as catalyst to unite these dynamics by reducing the financial risk for landowners who decide to grow unconventional crops for these new markets.

- With BCAP, crop producers and bioenergy facilities can team together to submit proposals to USDA for selection as a BCAP project area.

- If selected, crop producers will be eligible for reimbursements of up to 75 percent of the cost of establishing a bioenergy perennial crop. Producers can receive up to five years of annual payments for herbaceous (non-woody) crops (annual or perennial), and up to 15 years of annual payments for woody crops (annual or perennial).

- Assistance for the collection, harvest, storage and transportation of crops to facilities will be available for two years, per producer, in the form of a matching payment for up to $45 per ton of the delivery cost.

Highlights

- **Expenditures**

Refinements to the final BCAP regulations have targeted program expenses to a more limited set of materials than were eligible for payment under the Notice of Funding Availability (NOFA) .

- **Blue, white and green-collar job creation in rural America:**

The Record of Decision on the BCAP Environmental Impact Statement estimates that by 2023, up to $88.5 billion in economic activity and 700,000 jobs could be created.

- **New energy crops**

BCAP reduces the financial risk for producers who volunteer to grow crops at an unexplored scale. Potentially eligible crops include switchgrass, miscanthus giganteus, fast-growing woody poplar, jatropha, algae, energy cane, camelina or pongamia.

- **Enhanced stewardship and conservation measures**

1. Biomass must be collected and harvested according to an approved conservation, forest stewardship, or similar plan to protect soil and water quality and preserve land productivity into the future.
2. Native sod cannot be converted under BCAP contracts.
3. Crop collection, harvesting and transportation must be in strict accordance with invasive plant species protections.

- **Protects existing woody markets**

Biomass may not qualify for incentives if FSA determines that the biomass would be diverted from pre-existing markets.

- **Provides feedstock neutrality**

Maintains the 2008 Farm Bill definition of renewable biomass by supporting the use of both woody and herbaceous materials for energy purposes. The production of heat, power, biofuels, and bio-based products all remain supported by BCAP, as required by statute.

- **Kick-starts liquid cellulosic biofuels to meet RFS targets**

Provides incentives for the harvest of biomass for conversion to cellulosic biofuels that achieve 60 percent lower lifecycle greenhouse gas emissions.

- **Matching payments for eligible materials.**

1. Subject to the availability of funding, provides for matching payments to eligible material owners at a rate of $1 for each $1 per dry ton paid by a qualified biomass conversion facility, in an amount up to $45 per dry ton. An eligible material owner

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Biomass Crop Assistance Program (BCAP) May 2011

may be a producer of an eligible crop or a person or entity with the legal right to collect or harvest eligible material. By law matching payments may be made to eligible material owners for a maximum of two years.

2. To qualify for matching payment, eligible materials must be collected or harvested directly from the land. Materials cannot be "collected or harvested" after transport and delivery to a conversion facility.
3. Woody eligible material collected or harvested outside of BCAP project area contracts must be a byproduct of preventive treatments that are removed to reduce hazardous fuels, to reduce or contain disease or insect infestation, or to restore ecosystem health.
4. Woody eligible material collected or harvested outside of BCAP project area contracts must not be separated from material for higher value products after delivery to a conversion facility.
5. All eligible material must be harvested in accordance with an approved conservation, forest stewardship, or equivalent plan.
6. Matching payments are only available for eligible materials sold for a fair market value. This requirement replaces the NOFA restrictions regarding related party transaction and makes matching payments available to startup and other vertically integrated operations, but prevents efforts to defeat the purpose of BCAP by inflating biomass prices to gain higher matching payments.
7. Eligible materials do not include harvested grains, fiber or other commodities eligible to receive payments under Title I of the 2008 Farm Bill; algae; food waste or yard waste; or animal waste and animal waste by-products including fats, oils, greases and manure.

- **Establishment payments**

1. CCC will pay producers up to 75 percent of the costs of establishing a perennial crop. Eligible costs do not include the acquisition of land or equipment. Establishment payments are not available for annual crops. Annual crops, however, are eligible for annual payments.
2. Eligible crops cannot be crops eligible to receive payments under Title I of the 2008 Farm Bill, or any plant that is invasive.

- **Annual payments**

1. Biomass producers in BCAP project areas can receive annual payments up to five years for herbaceous biomass (annual and perennial) and up to 15 years for woody biomass (annual and perennial).
2. Cropland base and yield history applicable to the land enrolled in a BCAP contract will be preserved.
3. Annual payments are reduced by a percentage of the value of the crop and any matching payments received as follows:

- (a) 1 percent if biomass sold for cellulosic biofuels (60 percent lower greenhouse gas emissions)
- (b) 10 percent if biomass sold for advanced biofuels
- (c) 25 percent if biomass sold for heat, power or biobased products
- (d) 100 percent if biomass sold for anything other than heat, power, biofuels or biobased products.

- **Eligible land**

Eligible land for BCAP project area contracts include agricultural and non-industrial private forestland, but does not include federal or state-owned land, land that is native sod, or land enrolled in the Conservation Reserve Program, Wetlands Reserve Program, or Grassland Reserve program.

For More Information

For more information on BCAP, please visit FSA's BCAP website at http://www.fsa.usda.gov/bcap.

APPENDIX E

October 21, 2011

Hon. DEBBIE STABENOW,	Hon. FRANK D. LUCAS,
Chairwoman,	*Chairman,*
Committee on Agriculture, Nutrition and Forestry,	Committee on Agriculture,
U.S. Senate,	U.S. House of Representatives,
Washington, D.C.;	Washington, D.C.;
Hon. PAT ROBERTS,	Hon. COLLIN C. PETERSON,
Ranking Minority Member,	*Ranking Minority Member,*
Committee on Agriculture, Nutrition and Forestry,	Committee on Agriculture,
U.S. Senate,	U.S. House of Representatives,
Washington, D.C.;	Washington, D.C.

Dear Senators Stabenow and Roberts and Representatives Lucas and Peterson:

We are writing to urge your strong support for agriculture and forestry-based energy programs and policies in the new farm bill. There are a multitude of reasons why these Federal investments make great sense. The national security benefits are clear. And stable Federal support is essential to help meet rising energy demand and rapidly deploy new biofuels, bioproducts and energy crops, renewable and distributed electricity generation, thermal energy, as well as energy efficiency.

The innovative programs authorized in the energy title of the 2008 Farm Bill,[1] such as the Rural Energy for America Program, the Biomass Crop Assistance Program, the Biorefinery Assistance Program, and the Biobased Markets Program, have also been particularly valuable to U.S. farmers and the rural economy. These programs, administered by the U.S. Department of Agriculture (USDA), have helped finance thousands of diverse renewable energy projects and improved energy efficiency at farms, ranches and businesses across rural America. Programs are generally over-subscribed and show no signs of abating even as the economy has slowed.

And numerous reputable studies all come to the same conclusion—that building the clean energy economy is likely to create millions of jobs. This is already happening in part due to farm bill clean energy investments that have leveraged hundreds of millions of dollars from the private sector. Of course, these jobs and industries bolster U.S. technological competitiveness as well.

The benefits of energy title initiatives also come at a very modest cost. Of all the programs authorized in the 2008 Farm Bill, the energy title programs account for less than one percent of total outlays. Further, as longstanding agricultural safety net programs come under increasing budgetary pressure, these energy programs will continue to strengthen and diversify the rural economy.

We recognize the significant budgetary constraints facing Federal policymakers and the bold steps Congress is undertaking to address these challenges. The daunting scope of the task facing the nation is illustrated by the broad and unprecedented powers—and lofty expectations—bestowed on the Joint Select Committee on Deficit Reduction. This deficit reduction effort will require considerable sacrifices from many sectors of the Federal Government, including agriculture.

However, as the House and Senate Agriculture Committees engage with Members of the Joint Select Committee on Deficit Reduction and set forth the policy priorities of rural America within the next farm bill, for the reasons outlined above, we urge you to ensure that the energy title is preserved and robust mandatory funding is provided for critically important programs.

We thank you for your leadership on all of these important issues and pledge to work with you to craft farm, forest, and energy policies that work for all of agriculture and rural America.

Regards,

25x'25 Alliance
Advanced Biofuels Association
Advanced Ethanol Council
Agriculture Energy Coalition

[1] The Food, Conservation, and Energy Act of 2008, Pub. L. No. 110–234.

Algal Biomass Organization
American Biogas Council
American Coalition for Ethanol
American Council for an Energy-Efficient Economy (ACEEE)
American Council on Renewable Energy (ACORE)
American Loggers Council
American Nursery and Landscape Association
Association of Equipment Manufacturers
Association of State Energy Research and Technology Transfer Institutions (ASERTTI)
Biomass Coordinating Council
Biomass Power Association
Biomass Thermal Energy Council
Biotechnology Industry Organization (BIO)
Distributed Wind Energy Association (DWEA)
Energy Future Coalition
Environment and Energy Study Institute (EESI)
Environmental Law & Policy Center (ELPC)
Florida Renewable Energy Producers Association
Fresh Energy
Growth Energy
Institute for Agriculture and Trade Policy
Iowa Environmental Council
Iowa Solar/Small Wind Energy Trade Association
Iowa Wind Energy Association
Mississippi Biomass and Renewable Energy Council
National Association of Conservation Districts
National Association of State Energy Officials (NASEO)
National Center for Appropriate Technology
National Farmers Union
National Woodland Owners Association
North Carolina Association of Professional Loggers
North Carolina Woodland Owners Association
Ohio Environmental Council
Renewable Fuels Association
Rural Alliance for Renewable Energy
Show Me Energy Cooperative
Society of American Florists
Society of American Foresters
South Carolina Biomass Council
South Carolina Clean Energy Business Alliance
Southeast Energy Efficiency Alliance
Southern Alliance for Clean Energy
Tennessee Renewable Energy and Economic Development Council
Texas Renewable Energy Industries Association

Cc: Joint Select Committee on Deficit Reduction

The CHAIRMAN. Thank you, Mr. Greenwood.

Mr. Stroschein, go ahead please proceed with your testimony, for 5 minute testimony.

STATEMENT OF RYAN W. STROSCHEIN, J.D., CO-DIRECTOR, AGRICULTURE ENERGY COALITION, WASHINGTON, D.C.

Mr. STROSCHEIN. Thank you, Chairman Thompson, Ranking Member Holden, good to see you again. I appreciate this opportunity. My name is Ryan Stroschein. I am a Co-Director of a group called the Agriculture Energy Coalition. I also was raised on a farm in South Dakota which my family still operates, and I have seen firsthand the positive and growing impacts of rural energy production in rural economies.

The Agriculture Energy Coalition is a diverse group of agricultural, renewable energy and environmental organizations and private companies that represent a broad spectrum of renewable energy, energy efficiency and advanced biofuel, biopower and bioproduct interest. It was created in part to support the important energy programs contained in the farm bill to urge continuation of meaningful funding for these programs and to promote policy changes that will make them even more effective.

In the 2002 and 2008 Farm Bills, bipartisan majorities in Congress recognized the potential for American farmers, ranchers, rural landowners and entrepreneurs to create clean, domestic renewable energy and bioproducts by providing significant resources to the programs in the energy title. These foundational policies have transformed the promise of an emerging, clean, renewable, sustainable rural energy sector into a growing reality. A continued commitment to these goals will accelerate this momentum and is a vital component of the all-of-the-above energy strategy that has significant bipartisan support here in Congress.

Across the country, we have already seen successes from these initiatives, as Mr. Greenwood pointed out. First-of-their-kind biorefineries will soon be producing advanced biofuels in Florida and elsewhere. Wind turbines are powering farms, ranches and rural businesses from Maine to California. Solar systems are being used for a variety of on-farm business purposes, and biobased products, such as bioplastics and solvents being produced in states like Pennsylvania, Michigan and Ohio and other places for industrial applications. And the investments that have delivered these benefits have been relatively modest. The 2008 Farm Bill allocated only 7⁄10 of 1 percent of its total funding to the energy title's programs. Yet many new feedstocks, fuels, products and technologies are on the cusp of successful commercialization as a result of that investment. Those programs have funded projects in all 50 states and have leveraged tens of millions of dollars in state and private sector investments that would not have materialized without these programs.

It is also a significant job creator. USDA estimates that the BCAP and Biorefinery Assistance Programs alone have the potential to create as many as 700,000 new jobs. The biobased markets program is estimated to have the capability to create 100,000 new jobs. In these three programs, along with the Rural Energy for America Program, are among the core programs that our coalition is supporting and urging this Congress to reauthorize and fund.

Without an ongoing commitment to this effort, America's leadership position on energy and bioproduct innovation will erode. Other countries are poised to leap ahead of us in the global race to commercialize clean energy technology, and those jobs will go with them. This will undermine our economic, our energy, our environmental and our national security, and could put the U.S. in the position of purchasing and importing these technologies from foreign companies and foreign countries in the years ahead.

In the farm bill, energy title programs are at the heart of this effort. They cover the entire renewable energy, bioproducts and energy efficiency landscape. Wind power works very well in the Midwest and West, solar power works across the country, particularly in the West and the South. Biotechnology is huge in livestock and dairy areas, and bioproduct manufacturing has already begun to develop new industrial hubs, and the potential to utilize biomass exists from coast to coast. In other words, every corner of the country will benefit because these programs allow them to exploit their individual, inherent natural resource bases.

The Senate Agriculture Committee recently agreed that these investments in these energy title programs are worthwhile by adopting a bipartisan farm bill that maintains mandatory funding for these programs and makes improvements to several of these core energy title programs. The Agriculture Energy Coalition supports this outcome and believes that the farm bill, the final farm bill, should include these investments.

Rural America has been at the epicenter of our nation's burgeoning new renewable energy and bioproducts industries, and farmers, ranchers and rural small businesses and rural economies have already begun to realize the benefits. American agricultural and the rural communities that it supports has demonstrated that it has the vision, the entrepreneurialism, the optimism and the tenacity to continue to develop these important and lucrative new industries if it is provided with the tools to do so.

A continuing commitment to these farm bill energy title programs will promote the expansion of American energy jobs, drive innovation, foster cutting-edge technology that we can export to the rest of the world, materially benefit our environment, enhance our national security and ensure that we continue to lead the world in the development of these lucrative new industries.

For these reasons we urge this Committee and this Congress to reauthorize these vital energy programs and provide them with robust mandatory funding that will enable them to continue to do their good work throughout the life of this next farm bill. Thank you. I look forward to your questions.

[The prepared statement of Mr. Stroschein follows:]

PREPARED STATEMENT OF RYAN W. STROSCHEIN, J.D., CO-DIRECTOR, AGRICULTURE ENERGY COALITION, WASHINGTON, D.C.

Introduction and Background

Good morning Chairman Thompson, Ranking Member Holden, and other Members of the Subcommittee. Thank you very much for providing me the opportunity to testify here this morning. My name is Ryan Stroschein and I am co-director of the Agriculture Energy Coalition. The Coalition is a diverse and dynamic group of renewable energy, energy efficiency, agriculture, environmental and rural development organizations, and private companies that represent a very broad spectrum of renewable electricity, energy efficiency, advanced biofuel, biopower and bioproduct interests. This Coalition has come together, in part, to support the important energy programs contained in the farm bill, to urge continuation of meaningful funding for these programs, and to promote policy changes that will make them even more effective.

Renewing and funding these successful programs, which work in partnership with our nation's farmers, ranchers, rural small businesses and innovative energy entrepreneurs, will continue to leverage hundreds of millions of additional dollars in private investment for these industries and is vital to the commercialization of renewable energy, energy efficiency and biobased products.

Across the country, we've seen some early successes from these initiatives. First-of-their-kind biorefineries will soon start producing advanced biofuels in Florida and elsewhere; wind turbines are powering farms, ranches and rural businesses from Maine to California; solar systems are being used for various on-farm or business purposes, including to lower irrigation costs in dozens of states; and biobased products such as bioplastics and solvents are being produced in states like Michigan, Iowa and Ohio for industrial applications.

The Senate Agriculture Committee recently agreed that these are worthwhile investments to make. In April they adopted a bipartisan farm bill that maintains modest and necessary mandatory funding and makes improvements to several core energy title programs. The Agriculture Energy Coalition supports these efforts and believes that the final farm bill should include these minimum investments to preserve and grow ag energy jobs across the U.S.

A Track Record of Accomplishment for the Energy Title

The 2002 and 2008 Farm Bills recognized the potential of Rural America to deliver clean, domestic, renewable energy, energy efficiency and bioproducts, and provided significant resources for their development across a broad spectrum of technologies in all regions of the country. These foundational policies have transformed the promise of an emerging clean, renewable, sustainable rural energy sector into a growing reality. A continued commitment to these goals will accelerate this momentum and is a vital component of the "all-of-the-above" national energy strategy that has broad bipartisan support in this Congress.

Conversely, without an ongoing commitment to these goals, our world leadership in energy innovation will be fleeting and the U.S. will lose ground to international competitors. Other countries are poised to catapult ahead of the U.S. in the global race to commercialize clean energy technology, and those jobs will go with them. This would undermine our economic, energy, environmental and national security and could put the U.S. in the position of purchasing and importing these technologies from foreign companies and nations in the years ahead.

The core energy title and risk management directives of the existing farm bill perform many functions vital to the continued and accelerated development of the emerging clean technology industry. They provide:

- Loan guarantees and grants to fund new biorefineries in every region of the country that utilize diverse local feedstocks, accelerate commercialization of innovative technologies and the development of new advanced biofuels, renewable chemicals, and bioproducts;
- Labeling and incentives to speed the development of a U.S. renewable chemicals and biobased products industry;
- Assistance in improving the energy efficiency of farms and rural businesses to cut input costs and boost producer margins;
- Incentives to install distributed renewable energy systems that benefit every agricultural sector, including wind, solar, geothermal and biogas;
- Support for developing perennial energy crops grown to benefit both agricultural producers and the environment;
- Research and development funding for biomass feedstocks and renewable chemical technologies;
- Funding to promote the installation of energy systems that use biomass for heat and power; and
- Crop insurance and risk management tools that agricultural producers can use to mitigate the risks of growing new energy crops.

Economic Impact: Jobs, Increased Rural Income, New Business Opportunities

American agriculture is the key to the successful development and commercialization of clean, abundant, renewable, domestic energy and biobased products in this country, and the "core" farm bill energy programs provide American farmers, ranchers and entrepreneurs with the tools they need to make it happen. This can be a game-changer for rural economies across the country, with the potential to create hundreds of thousands of energy-jobs over the coming years.

Although relatively new, the farm bill energy programs already have had a tremendous positive impact on economic and job growth in rural America, and they can do so much more. USDA estimates that the BCAP and Biorefinery Assistance programs alone have the potential to create more than 700,000 new jobs as a result of increased cellulosic feedstock production and the construction and operation of new biorefineries. Furthermore, based on a survey of companies that could potentially qualify for the Biobased Markets Program, it is estimated that that program could create an additional 100,000 American jobs in the coming years.

Despite the fact that the 2008 Farm Bill allocated only 0.7 percent of its total funding for energy, these programs have been very successful. Many new feedstocks, processes, fuels and technologies are on the cusp of successful commercialization as a result. The impact of these investments is broad, with projects in all 50 states, and outsized relative to the total dollar amount allocated because the programs are targeted. Moreover, they leverage much more in state and private sector investments than would ever be possible without them.

These programs also will help us keep energy dollars here at home where they have a significant multiplier effect, both in terms of economic development and job creation. This is clearly a 'win-win' approach to meeting our nation's economic and energy security challenges.

If the Federal Government retreats from its commitment to clean energy, in the farm bill and elsewhere, the U.S. will risk losing even more ground to China, Europe, India, Brazil, and other proactive nations, and the new manufacturing jobs, industries and revenue this sector is going to generate in the coming decades will migrate overseas. A clean energy future provides domestic economic growth and jobs and improves national security and environmental quality. Everyone stands to benefit if we maintain this commitment. The U.S. is a nation rich in renewable resources with core strengths in industrial biotechnology, agriculture and chemical manufacturing, among other competencies. For these reasons, it makes competitive and economic sense for the U.S. to make the investments necessary to keep it at the vanguard of global renewable energy, energy efficiency and bioproduct development.

Key Programs for Clean, Ag-based Energy Jobs

The suite of programs contained in the energy title covers the entire renewable energy, energy efficiency and bioproducts landscape. Wind power works very well throughout the U.S. and especially in the Midwest, West, and offshore, solar works well across the country and in particular the South and West, biogas potential is huge in dairy, livestock and food processing states, bioproduct manufacturing will develop near industrial hubs and significant biomass exists almost everywhere. In other words, every state will benefit because these programs allow them to exploit their individual, inherent resource bases.

The Coalition believes that the following programs are the most important initiatives in the energy title of the farm bill and have focused on their reauthorization and funding:

Rural Energy for America Program

The Rural Energy for America Program provides grants and loan guarantees for energy efficiency and renewable energy projects as well as support for feasibility studies and energy technical assistance. Of all the farm bill energy programs, REAP provides benefits to the broadest spectrum of energy technologies, including the installation of wind, solar and biogas energy systems, biofuels infrastructure and energy efficiency initiatives throughout rural America. These programs also promote distributed generation—clean, decentralized energy production that promotes energy security and relieves pressure on our national energy grid. Energy efficiency boosts producer margins by cutting input costs for the long term and creates jobs in rural America. USDA estimates that REAP saved or created 15,000 jobs between 2009 and 2011.

Biomass Crop Assistance Program

The Biomass Crop Assistance Program (BCAP) is the only Federal program that assists producers who seek to grow, harvest, store and deliver dedicated energy crops to eligible next-generation biorefineries and is the only program that assists in the collection, harvest, storage and delivery of the biomass to electric generating facilities. Without this program, the agricultural community is reluctant to embrace these crops and forest residues due to the risk involved. Farmers and others in rural areas are bullish on renewable energy development but energy crops are unfamiliar to producers, lenders and insurers of these crops, and they enjoy almost none of the safety net components afforded traditional "farm program" crops. These crops can also be grown to improve soil conservation and water quality practices. In addition BCAP's promotion of utilizing woody biomass supports healthy forests and contributes to rural economies.

Biorefinery Assistance Program

The Biorefinery Assistance Program promotes the construction of the new infrastructure needed to manufacture cutting-edge new biofuels. Only commercial-scale biorefineries that produce advanced biofuels and bioproducts derived from renewable biomass are eligible for the program. Given the challenges borrowers in all industries have faced in accessing credit markets in recent years, it is no surprise that developers of next-generation, first-of-their-kind biorefineries have faced difficulties in finding private credit to fund the construction of these new facilities. Government loan guarantees are extremely valuable in economic conditions such as these because they allow promising new technologies to advance while leveraging significant private lending and investment that would otherwise remain on the sidelines.

Biobased Markets Program

The Biobased Markets Program enables qualifying biobased products to receive a "biobased" label, and uses Federal purchasing power to build new markets. To date, USDA has designated a total of 77 categories and 10,000 products and it continues to expand that list.

On May 1 of this year, Agriculture Secretary Vilsack announced new, expanded proposed guidelines for the USDA program that would allow for the designation of intermediate ingredients such as fibers, resins, and chemicals so that the products made from them could more easily be designated for preferred Federal procurement. This inexpensive program has served as a vital springboard for the emerging biobased products industry and it will continue to drive innovation and expansion of the industry if it is reauthorized and funded.

Conclusion

Rural America has been at the epicenter of our nation's burgeoning new renewable energy and bioproducts industries, and farmers, ranchers, rural small businesses and rural economies have already begun to realize the benefits. American agriculture, and the rural communities it supports, have demonstrated that they have the vision, entrepreneurialism, optimism, and tenacity to continue to develop these important and lucrative new industries if provided the tools to do so.

And the progress that has been made to date really is really just the tip of the iceberg. If we continue our national investments and policy commitments in these areas, the economic and job growth that will follow will exceed what we've already experienced. As we all hear from business over and over again, resource and policy certainty are critical for sustained growth and innovation.

Continuing these vital farm bill energy title programs will promote the protection and expansion of American ag energy jobs, drive innovation, develop cutting-edge technology we can export to the world, provide meaningful benefits to the environment, enhance national security, and ensure that we continue to lead the world in the development of these vital and lucrative new industries. For these reasons, we urge this panel, and this Congress, to reauthorize these vital energy programs and provide them with mandatory funding through the life of the next farm bill.

Thank you and I look forward to your questions.

The CHAIRMAN. Thank you, sir. Now Mr. Reinford, go ahead and proceed with your testimony, please.

STATEMENT OF STEVE REINFORD, OWNER/OPERATOR, REINFORD FARMS INC., MIFFLINTOWN, PA

Mr. REINFORD. Thank you, Chairman Thompson and Members of the Committee. I wasn't aware until I actually got your invitation that you are one of my neighbors, so it was a joy to be here with another Pennsylvanian here. This is my first time ever doing something like this, and I feel a privilege and an honor to be here. I am not quite sure how it all turned out, but I only had an 8 day preparation time here. I want to take the time to thank you guys for allowing me here to share my green experience. I have been in this business now probably for 8 years, sharing my experience on renewable energy, how it all happened here at Reinford Farms, and thanks so much for the incentives I got from USDA in conjunction with some of my bank guys helping me, we actually put up a new system, a very profitable system in one of Pennsylvania farms here.

So I am here to share a little bit of that story. And one of the main reasons I did it was because of odor reduction. In Pennsylvania, I did have a gentleman move into my area here, he was a police officer from one of the larger cities, and his complaint was odor all the time. So actually I went to work and we actually put together this system, anaerobic digesters in Pennsylvania, and I guess a lot of people are looking at what I am doing. I guess that is one of the reasons I am here, to share. I hope they promote this technology to continue to move forward in the next years ahead.

Additional income, I have received from that, the first couple years was in the low side. I actually managed to do some other technologies and bring other things in the farm, actually now the last income statement we got, the net profits a little over $300,000 on dairy farm and that is pretty good. When you start making as much money out of the back end of the cow as you can out of the bottom, it is kind of an appealing thing to us here. So that is drawing attention, it is environmentally friendly, the community likes me. I haven't had a complaint since I had it in here now.

Right now, as I sit here, there are probably 24 active digesters in Pennsylvania. I think we are shooting at probably 28 to 29 here by the end of this year. So we are kind of a front runner in renewable energy for digesters. I am kind of proud of that along with some other states here.

My experience all started when I sent my son to college, and when you do that, you never know what they are going to come back with. They actually got me started in this whole technology of renewable energy, and I didn't know anything about it 8 years ago. Right now they say I am one of the front runners in Pennsylvania, so I guess I am here to tell my story. And I would much rather be back mowing hay all day or planting corn. This ain't kind of my thing.

But I am here to hopefully promote this technology and continue to move forward. It is very economical and practical sort of thing.

One of the things I want to familiarize you with, I am not going to go into the next statement there, but anaerobic digestion is kind of a different thing, you take a ton of manure or a ton of food waste, you make energy out and you actually can supply energy to your neighbors and everybody seems to like that. And so that technology, I can't explain it but it does work. It is amazing technology, and it is really coming alive here, and I know the Commonwealth of Pennsylvania, that is why I can say Pennsylvania I haven't really been in other states.

I talked to a young—I talked to an older gentleman from Lancaster, and he is the guy that got me started in this whole thing. I did a lot of research, a lot of work before I got started here 8 years ago. So actually, I took a lot of digesters and duplicated it and I actually made something that would actually turn around a pretty good profit.

One of the things I want to say, we sized our digester for 1,000 cows, calls for future expansion, as I will get to later, I have three sons working with me, I didn't know how big we were going to get. In Pennsylvania, 500 cows is a fairly large dairy. Anyhow into the thing 2 years, I got a phone call from a partner with Wal-Mart and some grocery stores wanted to know if I wanted to bring in some other source of food waste into that thing. So actually, I started putting food waste in my digester and to my amazement, we actually doubled production. Food waste has 3½ times more energy than cow manure. So I am hoping somehow down the road we can partner with the food waste industry and be a big part of agriculture and especially in the dairy industry and hog industry here. We can take that product out of landfills and put it into something we can actually make renewable energy. It is a win-win for everybody and for the communities and economy.

We power right now about 80 and 100 houses plus my whole farm, so it is kind of amazing, amazing technology when you take cow manure that used to be a waste product for us. In Juniata County, people turn that into a commodity. It is just another amazing technology.

The heat from the generator is actually where we actually make a lot of our money off of. We got that technology, we are heating the house, the barn, everything in the barn. You can read the paragraph there we pasteurize milk and also dry corn. And latest, I just bought my wife a Chevy Volt, and so we are powering our transportation off of energy. And so that is kind of a pretty neat thing for us at Reinford Farms, it is getting a lot of attention in that.

We came down to Washington with our Chevy Volt but we ran out of energy coming through, up the road waiting to plug that thing in down here, but we couldn't find any outlets to plug it in. A little sidekick there.

The deciding factor with me for putting this system in play was actually because of the grants I got from REAP and also from the local banks. And so I am a big supporter of this whole technology and since I am kind of running out of time, I just want to say a big thank you for my family, I have another picture, you have my testimony, I sent down here on the photo addendum. If it weren't for my three sons in this business I wouldn't be where I am at. So I want to say thank you to my sons publicly, and also it actually helps bring the next generation into dairy farmers.

I am passionate—I am not used to running on the time clock here so sorry about that. I am passionate about this technology and I am willing to stick my neck out now to promote this for future generations and for agriculture. I think it is just amazing technology. So thank you, Mr. Chairman.

[The prepared statement of Mr. Reinford follows:]

Prepared Statement of Steve Reinford, Owner/Operator, Reinford Farms Inc., Mifflintown, PA

Chairman Thompson and Members of the Committee:

I want to take this time to thank you for the invitation to speak about my green energy experience. I am here to share my story about manure-to-energy and the value added to Reinford Farms in Mifflintown, PA. By utilizing USDA incentives, in conjunction with a bank loan, we were able to invest in an anaerobic digester. With this digester, I am reducing manure odors, creating cow bedding, drying grain, pasteurizing calf milk and producing electricity. This activity results in additional income for the farm and public benefits to the community.

My experience began 8 years ago when we sent one of our three sons to college to major in business. He came home after his second year of school and said to me that we should be looking at renewable energy and one of the suggestions was an aerobic digester. He got my wheels spinning and I educated myself by touring a few other digesters in the United States.

For those who are not familiar with the process, anaerobic digestion is a series of biological processes in which microorganisms break down biodegradable material in the absence of oxygen. One of the end products is biogas, or biomethane, which is combusted to generate electricity and heat, or can be processed into renewable natural gas and transportation fuels. Biogas can be cleaned up and inserted into existing natural gas infrastructure.

I talked to a very helpful gentlemen from Lancaster, PA, who had 23 years of digester experience. He gave me a few good pointers and I was sold. I found a biogas company that had been building digesters for more than 25 years. I had a feasibility study done by them to see if it would work. They told me I would need about 800 cows to make it cash flow. So I decided to enlarge my herd to reach that goal. But in the meantime I started adding food waste from local food chains, including 40 Wal-Mart and Sam's Club stores in the region. I was surprised to find that it doubled my biogas output which maximized my electricity generation capacity. So I leveled at 500 cows.

We are powering our whole farm along with 80 to 100 homes. The heat from the generator set supplies heat for the large farm house, repair shop, our farm offices, hot water for the dairy barn, pasteurizes milk for the newborn calves, and dries 40,000 bushels of corn per year. We separate the solids for cow bedding and sell the excess. The energy savings has been a great benefit to our business and has been a benefit to our environment too.

The deciding factor of whether or not we would go ahead with the digester was being able to receive grant money to help finance this project. We received grant money from USDA's REAP program and some from PA Energy Harvest. We also applied for low interest money from SEDA-Council of Governments.

Without the support of the USDA and the state, we will start losing ground in this technology on a lot of dairy farms. According to the American Biogas Council, there are 8,200 dairy and swine farms nationwide today that could support a digester. However, there are just under 200 farm based digesters in operation today. By comparison, there are over 10,000 digesters currently in operation in Europe.

My feasibility study showed that biogas would be a long-term win-win for my farm and the surrounding community. The REAP Program has helped many farmers complete the initial feasibility study to determine whether a digester makes sense for them. REAP provides farmers a long-lasting safety net by cutting input costs and developing new revenue sources. It also serves the public interest by increasing energy security, and cutting energy-related pollution. And USDA estimates that REAP has created or saved 15,000 jobs in 2010 and 2011.

I am passionate about telling my story so that we can continue to build digesters on farms to make us a leader in renewable energy and to promote rural economic self-sufficiency. We need the government to be a financial supporter of these projects so that we can achieve this goal.

Thank you again. I'd be happy to answer any questions you may have.

ATTACHMENT

Reinford Farms Photo Addendum

Reinford Family

Reinford Farms Dairy Barn

Digester

Digester Engine and Generator

The CHAIRMAN. Thank you, Mr. Reinford.

And we will make sure the folks in Washington who can't find a place to plug in their Volt know that there is a farm in Juniata County where they can get that done.

Mr. Taylor, I recognize you for your testimony for 5 minutes.

STATEMENT OF JEROME "JERRY" TAYLOR, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, MFA OIL COMPANY; CO-FOUNDER, MFA OIL BIOMASS LLC, COLUMBIA, MO

Mr. TAYLOR. Thank you, Mr. Chairman, Ranking Member Holden, and Members of the Subcommittee, thank you for the invitation to testify today on the energy bill, the title programs, in particular, the Biomass Crop Assistance Program, or BCAP as it is known as.

I am Jerry Taylor, President and CEO of MFA Oil company, a farmer-owned energy cooperative in Missouri with 40,000 members. MFA Oil supplies fuels, lubricants, and propane to customers in seven states. Our cooperative has a long history in leading renewable fuels innovation. Starting in the 1960s, MFA Oil company produced gasohol. More recently, in early the 2000s we ventured into biodiesel production, and in 2008, we began writing the next chapter in our renewable energy story, biomass.

In 2011, we took a major step forward and partnered with Aloterra Energy to form MFA Oil Biomass, a separate, small business with the mission of leading the cooperative into this new renewable energy field.

I will focus today on our experience with BCAP, but for more information about our innovation in the area, please refer to my written testimony.

When USDA issued the final BCAP rule, they said "BCAP will address a classic chicken-and-egg challenge. If commercial scale biomass facilities are to have sufficient feedstocks, then an established, large scale energy crop source must exist. Conversely, if profitable crop production is to occur, then a viable consumer base must exist to purchase the product." In our experience, this could not ring truer. It is a difficult process to educate farmers on a strange new plant called Miscanthus Giganteus. Just 2 years ago, it was a crop that was too expensive and planted by hand. USDA's approval in 2011 to fund our project areas was our window of opportunity. It allowed us to leverage other resources to develop a four-row planter, plant propagation acres and lower the cost of planting. To that end, BCAP was essential to bridging the gap with our producers to take that leap of faith.

To date, 225 family farmers have dedicated acres to the new energy crop, and we anticipate this number will grow to over 2,000 as our combined projects scale up to maturity at 50,000 acres per region. All of this is occurring on land that had been underutilized or was earning very little.

BCAP's most important long-term influence on the renewable energy market is to drive down the cost of the best perennial crops and increase the efficiency of which they are planted. No other Federal program has this broad effect on America's biomass renewable energy industry. BCAP is a game changer, but only if it is administered properly and funded consistently.

While USDA committed resources to fund our first year of a 7 year model, we had to adapt our model and the pace of implementation due to the drastic funding cuts of 2012.

Despite our significant successes, the absence of a clear direction in Federal policy is forcing us to scale back in each of our project areas. We are in a situation where it is impossible to plan 6 months out, let alone the 3 to 5 years necessary to run a business.

Consistent funding is the story here. Expanding our renewable energy industry cannot be done in a laboratory or in theory. Farming is advanced by doing. You cannot ferret out all the complexities of a such a unique crop and independently scale up to 200,000 acres in four project areas after only 1 year of funding. A BCAP program that is funded 1 day and is cut another will ultimately do more harm than good. It will set the biomass industry back years as farmers will lose faith in the industry.

I strongly support reducing our nation's deficit and tackling the rising debt. In fact, U.S. farmers have led the way, establishing a fiscal record that is unique among Federal policies.

I understand tight budget constraints will be a major issue in the 2012 Farm Bill and encourage careful review of all the programs. In doing so, I believe you will find that BCAP is worthy of continuing, and should any funding be available for the energy title, I strongly encourage you to direct it toward this game-changing program.

Beyond reauthorization and the potential for funding, my written testimony offers suggestions related to the program's functions. Most importantly, USDA needs to have the flexibility to see existing projects through to maturity.

In closing, MFA Oil Biomass has harnessed America's agricultural pioneering spirit to advance opportunities for our farmer members, and we are overcoming the chicken-and-egg problem by successfully leveraging BCAP the way it was intended. Again, I thank you for this opportunity to testify and look forward to any questions.

[The prepared statement of Mr. Taylor follows:]

PREPARED STATEMENT OF JEROME "JERRY" TAYLOR, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, MFA OIL COMPANY; CO-FOUNDER, MFA OIL BIOMASS LLC, COLUMBIA, MO

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee, thank you for the invitation to testify today on farm bill energy title programs, in particular the Biomass Crop Assistance Program (BCAP).

I am Jerry Taylor, President and Chief Executive Officer of MFA Oil Company. I also serve on the boards of Mid America Biofuels, the National Cooperative Refining Association, and the National Council of Farmer Cooperatives.

Formed in 1929, MFA Oil Company is a farmer-owned energy cooperative in Missouri with 40,000 members. Before ethanol as we know it today, MFA Oil Company was producing fuel grown by our farmers. Prior to the oil embargo of the 1970s, MFA Oil was one of the early producers of gasohol, which started America on the long road towards energy security and energy independence. MFA Oil was able to make that bold move because of its lasting history in Missouri and strong relationship with the region's farmers.

From those days of gasohol, MFA Oil today supplies fuels, lubricants, and propane to customers in Missouri, Arkansas, Oklahoma, Kansas, Indiana, Kentucky, and Iowa. Through a subsidiary, MFA Oil operates Break Time convenience stores in Missouri and Arkansas, and Jiffy Lube and Big O Tire franchises in Missouri. MFA Oil also is an investor in a biodiesel production facility in Missouri, offers E85 at over 50 locations, and has a ten percent ethanol blend at more than 300 MFA Oil fueling stations.

In 2008, we began laying the groundwork to expand our energy services and take on America's most important and most difficult renewable energy sector—biomass.

Beyond our willingness to consider new fuel opportunities, our pursuit of this expansion was triggered when I was informed by one of our members in southwest Missouri that they were switching from propane to solid fuel pellets because of the significant operational cost savings and the elimination of big price swings in the oil markets. This change was driven by our innovative farmers and our cooperative has an obligation to find the best fuel prices for our farmers. Those conversations spurred our dive into using Miscanthus Giganteus as a new energy source for rural America. Also important were lots of policy changes like Missouri's Proposition C that mandated a renewable electricity standard of 15 percent by 2021. The latter has triggered significant activity among electricity providers, including among coal plants exploring co-firing coal with biomass products.

In addition to Missouri's renewable energy law, we saw an opportunity in the state's high rate of underutilized, marginal farm land, combined with a significant density of poultry farmers who are very vulnerable to a rise in heating costs necessary to heat poultry barns.

MFA Oil Company's biomass initiative took a major step in 2011 when we partnered with Aloterra Energy LLC to form MFA Oil Biomass LLC (MFAB), a separate small business with the mission of leading the cooperative into the renewable energy field. MFAB is utilizing our existing knowledge of farming and the energy markets to form a completely vertically integrated renewable energy supply chain. This vertically integrated system provides farmers an energy crop source, unique harvesting and planting equipment for the crop's rhizomes, specialty harvesting services for the mature crop, processing technology, and marketing services to get the best return for the farmer and the cooperative.

Our story is one of entrepreneurial spirit inherent in American agriculture—we saw a need, assessed our options, and applied know-how, skill and hard work to develop a solution. It is also a story of the role that cooperatives play in bringing individual farmers and ranchers together to seize new opportunities in the marketplace that they would never be able to take advantage of as individuals. As a co-op, we are able to work hand-in-hand with producers as valued, trusted business partners, allowing farmers to boost their earnings from the marketplace and diversify their income streams.

For more information about our feedstock and our vertically integrated system, please refer to *Appendix A* following this testimony.

Solving the Chicken and Egg Problem

In October 2010 when the U.S. Department of Agriculture (USDA) issued the final rule for BCAP, they noted the following:

> *BCAP will address a classic chicken-and-egg challenge: if commercial-scale biomass facilities are to have sufficient feedstocks, then an established, large-scale energy crop source must exist. Conversely, if profitable crop production is to occur, then a viable consumer base must exists to purchase the product.*

In our experiences, this could not ring truer. It is hard to articulate just how difficult it was, and still is, to educate farmers on a strange new plant called Miscanthus Giganteus. This was not an attempt to plant a known crop in a new industry, but an unknown crop in a non-existent industry. Add to that a crop that was too expensive (at $1,400 per acre) and was being planted by hand. And we were asking farmers to spend capital without a return on investment for 3 years.

Our strategy since the 2008 Farm Bill was enacted has been to leverage BCAP funding to take the best energy crop in the U.S., mechanize all logistics, and use cutting edge technology to quickly mature the industry. In FY 2011, USDA approved $14.6 million in BCAP funding for MFAB's three project areas—central Missouri, southwest Missouri and northeast Arkansas. USDA also approved $5.7 million for one project area in Ohio and Pennsylvania sponsored by our partners, Aloterra Energy LLC.

This money is going to local farmers to establish Miscanthus Giganteus to be used as an energy feedstock. Leveraging BCAP funding, MFAB and Aloterra Energy LLC have signed up a combined 18,000 acres to grow Miscanthus Giganteus in these four project areas. To date, 225 family farmers have dedicated acres to the new energy crop and we anticipate this number will grow to over 2,000 as our projects scale up to maturity at 50,000 acres per region. These families will be the backbone that will help reduce our dependence on foreign oil by displacing the current fossil fuels that are used for agricultural heating and power plants. All of this is occurring on land that had been underutilized or was earning very little. Our target farmland is marginal and/or under-productive that is not used for row crop production.

The 2011 BCAP funding was a critical first step and allowed us to leverage our resources to develop a four-row planter, plant massive propagation acres, and get the costs down below $750 per acre. To that end, the BCAP funding was essential to bridging the gap with our producers to take that leap of faith.

We believe in starting with the farmers and the feedstock—the rest will follow. We would not leverage our future or BCAP dollars on an unproven technology, but instead started with proven markets and the proven technology of solid fuel pellets. It was the only thing that made sense to us and our farmers. At maturity MFAB's three project areas will have 150,000 acres and produce 1.8 million tons of biomass per year. In liquid fuel language, this would create a twenty-year reserve of 93,000,000 barrels of liquid fuel, using the same language and conversion methods of the oil and gas industry. (150,000 acres × 12 tons per acre = 1,800,000 tons × 15.5 MMBTU/ton = 27,000,000 MMBTU / 5.8 MMBTU per barrel of crude oil = 4.66 million barrels of crude oil × 20 year life of crop = 93 million barrels of crude oil equivalent)

The results of our work through BCAP have been both exciting and stunning. Almost immediately following USDA's funding to start our BCAP project areas, we witnessed a flurry of activity from national and international entities to introduce dozens of cutting-edge technologies and manufacturing projects to convert our crops into green fuels, green chemicals, solid fuel pellets, and consumer products ranging from car parts to construction materials.

BCAP Uncertainty

While USDA committed resources to fund our first year of a 7 year model to have 50,000 acres planted in each region by 2014, we had to adapt our model and pace of implementation due to the drastic funding cuts to BCAP in FY 2012. As a result, we submitted BCAP applications to the Farm Service Administration (FSA) that had comprehensive and pragmatic adjustments to our past budgeting projections with the goal of maintaining the significant momentum and success that has been created. Our goal is to ensure that the BCAP dollars already invested will result in a successful project.

However, funding uncertainties—BCAP funding cut from $432 million in FY 2011 to $17 million in FY 2012—the timing of the farm bill reauthorization, and inconsistent Federal energy policies make us seriously question continued investments at current levels in this renewable energy industry. Despite our significant successes and ability to sign up 18,000 acres in partnership with Aloterra Energy LLC in only 3 months, the absence of a clear direction in Federal policy is forcing us to scale back each of our project areas.

We recognize that the energy security problems in the U.S. cannot be fixed overnight. We also recognize that we need to consider the entire portfolio of petroleum and renewable tools to solve our problems. However, those of us tackling the most difficult part of this industry and likely the most promising for rural America—biomass—are in a situation where it is impossible to plan 6 months out, let alone the 3 to 5 years necessary to properly run a company.

America needs farmer participation if we are to solve our energy problems. We will need millions of tons of biomass for biobased products and liquid fuels. I truly believe we need programs like BCAP to solve the chicken and egg problem. However, a BCAP program that exists one day and is gone another, that is funded one day and is cut another, will ultimately do more harm than good. It will set the biomass industry back 10 years because farmers will lose faith in the industry.

Why is BCAP so important to solving our energy security problems while also creating rural manufacturing? Because most of the entities in the renewable energy industry are focused on one technology—liquid fuel—the biomass to feed that technology is an afterthought. In contrast, we and other similar companies are using BCAP to accomplish the following:

1. Educate farmers about this new cash crop and industry.
2. Develop all of the custom farming equipment necessary to make this possible.
3. Develop thousands of acres of energy crops and prepare our farmers for that breakthrough technology when it does occur.
4. Simultaneously develop multiple biomass markets in solid fuel pellets, biobased products, and biobased chemicals.
5. Make solid advancements in fiber based processes to replace a host of petroleum products ranging from Fiberglass to car parts.

No other Federal program has this broad effect on America's renewable energy industry. BCAP is going to change the economies of rural America and therefore all of America. Not to be forgotten, while we are developing all of these other product lines, we are also primarily responsible for supplying the much needed test tonnage so liquid fuel companies can develop the breakthrough that will change how we fuel America. BCAP is a game changer, but only if administered properly and funded consistently.

All efforts are being made to reduce the per-acre planting costs of Miscanthus Giganteus and to move the industry quickly to a point that BCAP is no longer necessary. To support our words with actions, both MFA Oil Biomass and Aloterra Energy have offered to sign a contract that we will not request BCAP dollars in the future if we were to receive a guarantee of 3 years of adequate funding to properly plan and invest our way away from government subsidies. Consistent funding is the story here. Consistent funding is critical because expanding our renewable energy industry cannot be done in a laboratory or in theory. Farming is advanced by doing. Our farmers are learning about Miscanthus Giganteus and the equipment by getting into the fields with us, observing, and then providing great ideas and pragmatic solutions to problems. You cannot ferret out all of the complexities of such a unique rhizome-based crop and independently scale up to 200,000 acres in the four project areas after only 1 year of funding. Because we own the planting supplies, the BCAP funding is not leaving the project area, but is instead being reinvested in the local economy while also reducing planting costs.

As is the case with many farm bill titles (research, rural development, energy, *etc.*), programs that are authorized but never funded are of no help. Likewise, programs that are deprived during the appropriations process never reach their full potential. We hope this will not be the case for BCAP going forward.

BCAP Reauthorization

Our co-op and its farmer-owners support reducing our nation's deficit and tackling the rising debt. In fact, U.S. farmers have led the way, establishing a fiscal record that is unique among Federal policies. We understand tight budgetary constraints will be a major issue in the 2012 Farm Bill and encourage careful review of all programs. In doing so, I believe you will find BCAP is worthy of continuing and should any funding be made available for the energy title, I strongly encourage you to direct it toward this game-changing program.

BCAP, if reauthorized in the 2012 Farm Bill, will be viewed in the future as a sleeper program that changed the trajectory of renewable energy forever. BCAP's most important long-term influence on the renewable energy market is to drive down the cost of the best perennial crops and to increase the efficiency with which they are planted. That is how we change our future, grow our own oil fields, and make "energy security" a meaningful phrase.

Beyond a simple reauthorization, we offer the following suggestions and reactions to existing legislative proposals related to the functionality of the program.

Reimbursement Rates. As it is implemented today, BCAP acknowledges the need to incentivize farmers to take on the risk of energy crops and weather the 2 maturation years with little or no income on their crops. Important to obtaining farmer participation is maintaining the 75 percent reimbursement rate for establishing the crops.

BCAP is not a loan guarantee program for a specific technology, nor is it a program that bets on any technology to convert biomass into a biobased product or fuel. Rather, BCAP is intended to solve the front-end problems of this industry—getting feedstock planted **and** using BCAP to reduce the historically prohibitive perennial crop planting costs. BCAP has placed us on the path to accomplish exactly that. Two things are accomplished through 75 percent reimbursements:

1. The farmer can take a risk on an unknown industry despite many issues that could harm a project; and
2. The project sponsor can find ways to reduce costs.

MFA Oil Biomass is leveraging BCAP to amass assets in seed sources and equipment that will allow America's farmers to plant this ten to fifteen ton per acre crop at $250 an acre in about 3 years. As previously noted, prior to BCAP this cost was at $1,400 or above. This eliminates the need for BCAP entirely and allows us to make BCAP a stepping stone program and not a new long-term farming subsidy.

Reducing the establishment reimbursement rate forces a project sponsor to forego long-term planning and instead focus on a short-term strategy to do whatever it takes to convince a farmer to pay fifty percent of the costs and get acres planted. This eliminates progress, breakthroughs, and the ability to have a project sponsor work in a true partnership with their farmers. A concrete example could be a decision to continue the hand planting of the crop and to forego long-term investments in manufacturing mechanized planting systems.

Instead, the program could cap funds to plant new acres under BCAP to 3 years. For example, MFA Oil Biomass intends to scale up each project to 50,000 acres. We averaged about 4,000 acres per project area with 2011 funding. BCAP could limit our project to 2 more years of new acres. So, if the FSA funds 7,000 acres in 2013 and 10,000 in 2014—that would be the final year. MFA Oil Biomass would be forced to work out a funding mechanism with its farmers to plant the final 29,000 acres. After 3 funding years, a project area should be able to reduce planting costs to no longer need BCAP or obtain traditional financing after proving the economics of the specific project. However, this can occur only with consistent Congressional funding and a 3 year plan. Our current experience with project funding uncertainty makes planning for the future impossible.

Environmentally sensitive lands. As previously stated, our efforts are occurring on land that had been underutilized or earning very little. Our target farm is comprised of marginal and/or under-productive land that is not used for row crop production. The entire biomass industry is based on the premise that it will not take land from food acres. To push us to compete with row crop acres is to push us back towards the very problem we are trying to solve with cellulosic ethanol.

We do not have an issue with eliminating land that has never been farmed—as the existing rule dictates. We completed a thorough Environmental Assessment under the National Environmental Policy Act (NEPA) that assesses whether or not growing Miscanthus Giganteus would have a significant impact on the environment, which included assessing the effects on wildlife. Additionally, USDA's Natural Resources Conservation Service (NRCS) receives funding to complete mandatory conservation plans with each field planted taking into account the effects on endangered species and wildlife. For our project areas, NRCS mandated a 25 foot border around each field as well as mandatory monitoring and reporting expectations. This is a second layer of protection for the environment. In our experience, we have found existing Federal law being used as intended and fully protecting environmentally sensitive lands. To place further limitations on eligible land may hurt future opportunities.

Geographic and Feedstock Diversity. Years of economic analysis goes into a biomass project area before a private company decides to invest. Therefore, the markets are already vetting the appropriate geographic regions for a biomass crop or technology, which is determined on a host of inputs that include existing regional farming practices, local transportation infrastructure, access to markets, climate for specific crops, and more. MFAB would recommend that the FSA administer BCAP applications based on what comes to the program from the private market and not give preference to a region because it has fewer or no existing projects or a new energy crop. There are economic reasons why more arid or dry regions will see less activity. Conversely, there are economic reasons as to why highly productive row cropping regions will not see large projects but regions with marginal acres will see more activity. Likewise, there are reasons why regions with access to transportation infrastructure will see more activity. Legislation should work in cooperation with the markets to produce more economical projects.

Funding for Existing Projects. MFAB also encourages the Subcommittee to consider how the program treats existing projects that have received funding. It is important to allow continuation of funding of such project sponsors to ensure project maturity. We base this recommendation on our experience with BCAP for 2 straight years. We have been consistently told that current regulations dictate the assessment of other projects to ensure crop diversity. This has the ill-advised effect of pulling the plug on existing projects that may be performing very well but are not yet mature enough to stand alone. USDA needs to have the flexibility to continue funding programs to ensure projects are seen through to maturity and to ensure the FSA has the tools needed to be a good steward of public funds. I look forward to working the Subcommittee on legislation language that ensures existing projects are not put at disadvantage when funding decisions are made.

In closing, meeting the food and energy needs of a growing world population is a daunting task but one that will be accomplished by fostering American agriculture's pioneering spirit. MFA Oil Biomass has harnessed that spirit to advance opportunities for our farmer members and we are overcoming the proverbial chicken-and-egg problem by successfully leveraging BCAP the way it was intended.

Our farmer-owners see incredible opportunities as this endeavor takes off. They recognize the potential to offer America's rural communities permanent manufacturing jobs, a new cash crop for farmers, and a local source for green heating, renewable liquid fuel sources, biobased chemicals, green building materials, water treatment systems, soil reclamation systems, and consumer packaging.

Again, thank you for the opportunity to be with you today and I am happy to respond to any questions.

APPENDIX A: MFA OIL BIOMASS LLC

Project Description

About Our Crop

MFAB recognized early on that having a versatile feedstock, something able to be used in multiple products, was critical to success. MFAB's extensive research confirmed the potential of Miscanthus x. Giganteus as not just a viable feedstock but one with incredible potential. Miscanthus Giganteus is rated to grow from hardy zones 4–9, and unlike other similar species, it can grow in temperatures as low as 43° F. A Miscanthus Giganteus stand is estimated to last 15 to 20 years or more after the initial planting.

Miscanthus Giganteus is a C4 warm season perennial grass that is a non-invasive, sterile hybrid that moves slowly by rhizome expansion. The plant also is drought and pest resistant, and needs less fertilizer than food crops, which translates into less run-off into the region's water systems. In fact, a Biomass Crop Options and Supply Chain Feasibility study performed by Missouri Biomass Farmer Supply Chain Consortium and funded by the Missouri Agricultural and Small Business Development Authority (MASBDA) found that Miscanthus can filter run-off, reduce the use of fertilizers, act as a disposal option for animal waste, improve water quality and soil health, and more.

The grass is also extremely efficient in sequestering carbon from the air which is an added benefit as carbon markets further develop. We are in the process of confirming third party studies showing that Miscanthus has a ratio of 53:1 in terms of carbon sequestered per acre *versus* the carbon emitted in farming/harvesting the crop itself. Furthermore, producers have found that by planting Miscanthus, their soil quality has improved due to decreased compaction and increased soil organic matter. This latter information has dramatic consequences for America's farmers.

Regarding efficiencies, third party studies (and we are confirming with our own teams) establish Miscanthus as having a 36:1 energy-in to energy-out ratio, making it very efficient and the consumers of this product will therefore not have to address assertions that energy or biobased products sourced from Miscanthus are not truly renewable. Last, at 10–15 tons per acre, Miscanthus doubles its nearest competitor in tonnage and increases the farmer's return. It is also projected to produce three times more gallons of ethanol per acre than corn.

Below is a rough comparison of the economics of Miscanthus, long considered cost prohibitive, against the funding of all other BCAP projects funded in 2011.

Name	Main Crop	Estimated Acres for 2011	Estimated Annual Yield of Per Acre	Cost per Acre	Total Cost	MMBTU/Ton	Life of Crop (Years)	Total MMBTU's Over Life of Crop	Cost per MMBTU Over Life of Crop
BCAP Project Area 1	Switchgrass″	20,000	4.00	$310	$6,200,000	14.4	10	11,520,000	$0.54
BCAP Project Area 2	Miscanthus	6,588	12.00	$877	$5,775,000	15.5	15	18,380,520	$0.31
BCAP Project Area 3	Miscanthus	3,400	12.00	$1,124	$3,822,000	15.5	15	9,486,000	$0.40
BCAP Project Area 4	Miscanthus	3,850	12.00	$1,251	$4,815,000	15.5	15	10,741,500	$0.45
BCAP Project Area 5	Miscanthus	5,344	12.00	$1,067	$5,700,000	15.5	15	14,909,760	$0.38
BCAP Project Area 6	Camelina*	1,000	0.48	$370	$370,000	20.5	1	9,840	$37.60
BCAP Project Area 7	Switchgrass	20,000	4.00	$310	$6,200,000	14.4	10	11,520,000	$0.54
BCAP Project Area 8	Camelina*	50,000	0.48	$490	$24,500,000	20.5	1	492,000	$49.80
BCAP Project Area 9	Poplar#	7,002	5.00	$2,446	$17,127,000	16.0	15	8,402,400	$2.04

*Assumes 1.2 ton per acre yield of camelina seed with 40% oil composition.

″Assumes same price as Project Area 7 due to lack of funding information.

#Assumes 15 year cycle per ZeaChem website with five harvests, 15 tons per harvest, or 5 tons per year.

One Acre Comparison~	Main Crop				BTU's per ton	Estimated Annual Yield of Per Acre	# of Harvests	One Acre Total MMBTU's Over Life of Crop	Cost per MMBTU Over Life of Crop
One Acre	Miscanthus				15.5	12.00	15	2,790	$0.39
One Acre	Poplar				16.0	5.00	15	1,200	$2.04
One Acre	Switchgrass				14.4	4.00	10	576	$0.54
One Acre	Camelina				20.5	0.48	1	10	$43.70

~Used per acre cost average for each individual crop.

Two significant points above—Miscanthus has no equal in MMBTUs over the life of the crop and we have the cheapest per BTU cost using BCAP funding. We believe these points create a strong argument that we are a very good investment of BCAP dollars. This data strongly supports our approach and our emphasis on a vertical integration model that allowed us to plant more efficiently than the above crops (switchgrass, camelina, and poplar) that have well over a decade head start, have existing planting systems, and are well known crops to potential farmers. We are singularly focused on getting crop costs down and into the hands of our farmers.

Finally, in order to garner approval under BCAP, we had to complete a thorough Environmental Assessment under the National Environmental Policy Act (NEPA). The Final EA (available on USDA's website) confirmed that the crop has a scientifically sound and clearly established record and will not have a significant environmental impact on the region.

About Our Model

We use the phrase "vertical integration" frequently in our daily work. This model grew out of 2 years of research and frustration in trying to understand the best way to enter into the biomass industry. Growing, harvesting, and processing crops whose sole use is an energy source is something that is in its infancy. MFAB's owners realized that to develop farmer support we had to understand each aspect of our supply chain and be able to answer every question to ease farmer concerns and gain commitment. After extensive research, we came to the conclusion that the only way to control our destiny in this nascent industry was to rely on ourselves and become experts in each area of our own supply chain that we controlled. Also, the economics of biomass—high volume and low margins—dictates this model for survival.

From our vertically integrated model and emphasis on making Miscanthus Giganteus inexpensive to plant evolved our approach to our biomass acres as "oil fields" of liquid fuel biomass reserves. Focusing on a true "feedstock first" viewpoint, we are agnostic as to conversion technologies. We are only interested in what makes economic sense and what has the best risk-reward profile.

MFA Oil is already supplying fuel, including propane to thousands of farmer members and non-members in each state where we operate. Therefore, MFAB is well positioned to introduce a new fuel source to existing customers and to create new fuel markets. MFAB is developing biomass supply and heating systems for existing MFAB members that already purchase propane—specifically Farm to Fuel—a new start up that has designed and is producing a high efficiency biomass furnace. With approximately 100 of our pellet stoves in operation today, many customers are already transitioning their heating systems to be compatible with our pellets. Last, if necessary, locating our facilities near transportation infrastructure allows MFAB to access international pellet markets.

Most other entities in this industry are focused on one technology and biomass is an afterthought. In contrast, MFAB is not only developing the biomass but is also simultaneously developing multiple biomass markets in pellets, biobased products, biobased chemicals, and we are making solid advancements in fiber based processes to replace a host of petroleum products ranging from Fiberglass to car parts. While this is occurring, we are also supplying significant test tonnage to liquid fuel companies developing their different types of liquid fuel technologies.

Our future plans entail building biorefineries inside our biomass reserve areas that make multiple higher value products that each replace part of a barrel of oil. This allows a conservative and methodical approach, instead of betting our future on the success of a specific conversion technology. Dedicated energy crops require the cultivation of farmer relationships and a vertically integrated model that assures the farmer that all of the pieces are in place for success. Our emphasis is on working in partnership with our farmers from soil to market.

Our Potential

The 4 year goal of MFAB is to establish approximately 50,000 acres of Miscanthus Giganteus in each of its three project areas. The 50,000 acre goal will enable each area to process approximately 600,000 tons of biomass per year. Each ton contains about 15,500,000 BTUs, which means at full maturity each project area can produce enough energy to power 65,000 homes or produce 1,600,000 barrels of renewable liquid fuels each year.

For all three project areas combined, third party feasibility studies prepared by Environ International Corporation anticipate a $150 million annual economic impact from growing this new energy crop, while creating 2,700 new jobs.

Additionally, we have seen our potential fuel pellet markets serving agricultural heating needs explode. To keep up with demand, MFAB has purchased a pellet stove company and is rapidly developing this market. Displacing only 35 percent of the propane market in southwest Missouri and northwest Arkansas would create an annual pellet market of 600,000 tons. MFAB has also completed extensive side by side comparisons to propane with Tyson growers with outstanding results for the Miscanthus pellets.

The existence of MFAB backed by our committed farmers has led to dozens of meetings with technology providers from around the U.S. as well as international companies, all seeking to leverage our existing acres and assess establishing liquid fuel plants in our project areas. This has triggered several interactions with our state economic development agencies and we are currently assessing the use of several funding sources to accelerate our manufacturing projects.

Beyond the quickly developing liquid fuel and biobased chemicals markets, MFAB is implementing a model to assist small towns across the U.S. in complying with EPA wastewater discharge requirements. Rather than requiring small towns to build multi-million dollar water treatment facilities, MFAB is working with state level environmental agencies to help municipalities comply with regulations by using Miscanthus Giganteus to filter the water in conjunction with drip line technologies. This has enormous implications for America's small towns to save money in a tough economic period and to properly clean water to the standards of the EPA without massive capital expenditures.

Another benefit is the reclamation of mine land. Mining companies across the Midwest are working with MFAB to plant Miscanthus to increase organic matter, sequester carbon, improve soil drainage and water retention, reduce soil erosion, reduce nutrient leaching, increase wildlife habitat, and reduce water runoff. Hundreds of thousands of acres of mine land are currently sitting idle, but are also continuing to contaminate nearby communities, which is why the planting of Miscanthus is critical to stabilizing soil and creating a new source of biomass for regional "green" projects.

Regarding power needs, the city of Columbia, Missouri, has instituted a self-mandated 15 percent renewable energy requirement and the University of Missouri is putting in place a biomass boiler, which will be online June 2012.

MFAB also is working with the Missouri based USDA—Agricultural Research Service, the University of Missouri, and Arkansas State University on several research projects related to Miscanthus. We have taken on the role of bringing industry to the table as advisors and to assess new projects and opportunities for the region's businesses and farmers. This includes potential joint projects with the corn growers associations using corn stover, retrofitting underutilized regional power plants to burn biomass, and assessing technologies of Missouri-based companies to commercialize liquid fuel projects. Additionally, we are exploring joint projects with Missouri equipment dealers to assess harvesting and storage techniques and to spur local equipment sales, as well as a 200 ton Miscanthus pellet test burn with the City of Columbia to test equipment.

The CHAIRMAN. Thank you, Mr. Taylor.

Now will I recognize Mr. Haer for 5 minutes testimony please.

STATEMENT OF GARY L. HAER, CHAIRMAN, NATIONAL BIODIESEL BOARD; VICE PRESIDENT, SALES AND MARKETING, RENEWABLE ENERGY GROUP®, INC., WASHINGTON, D.C.

Mr. HAER. Thank you. Chairman Thompson, Ranking Member Holden, Members of the Subcommittee and full Committee, on behalf of the National Biodiesel Board, I am grateful for the opportunity to testify today regarding the farm bill energy title. I am Gary Haer, Vice President of Sales and Marketing for Renewable Energy Group®, a leading U.S. biodiesel producer headquartered in Ames, Iowa. Our company has biodiesel production facilities in Minnesota, Texas, Iowa, Illinois, and we are working to reopen biodiesel facilities in Louisiana, New Mexico and Kansas.

Our focus is on converting natural fats, oils and greases into advanced biofuels. And currently, I have the privilege of serving as Chairman of the National Biodiesel Board, the U.S. biodiesel trade association that I will refer to as NBB.

Biodiesel is a renewable low carbon diesel replacement fuel. Like diesel fuel, it is used in trucks, trains, agricultural equipment, mining operations, generators and heating oil. Biodiesel is used in existing diesel engines without modification. And it is made from a broad diversity of feedstocks, including recycled cooking oil, agricultural oils and animal fats.

There are approximately 200 biodiesel production facilities across the country. And last year, those plants produced a record 1.1 billion gallons of advanced biofuel breaking the billion gallon mark for the first time in our industry's short history. By comparison, the U.S. uses approximately 55 billion gallons of petroleum diesel fuel each year.

Our trade association, the NBB, works closely with a number of diverse feedstock organizations including the National Renderers Association, the American Soybean Association, the United States Canola Association, and National Restaurant Association.

Our industry has production facilities in all but a few states across this land. In fact, 13 of the distinguished Members on this Subcommittee have at least one plant in your districts, including Representatives Lucas, Peterson, Thompson, Holden, Stutzman, Gibbs, Huelskamp, McIntyre, Walz, Owens, Pingree, Fudge, and Noem.

The other nine Members of this Subcommittee have biodiesel production facilities located in your states, and NBB estimates that those plants and others like them across this country, supported more than 39,000 jobs in all sectors of the U.S. economy in 2011.

This generated household income of more than $2.1 billion, and created more than $3.8 billion in GDP. Many of our production facilities are located in rural America where, in many cases, they are the primary economic engine for the local community.

In addition to creating direct manufacturing jobs, our diversified feedstocks and coproducts represent expanding markets for U.S. farmers, livestock producers, renderers and restaurant owners. Given this overview, you can understand why programs supporting biodiesel are a critical piece of the next farm bill. In particular, we have a strong interest in two existing farm bill energy title programs, the Biodiesel Fuel Education Program, section 9006, and the Bioenergy Program for Advanced Biofuels, section 9005.

First, the education program plays a vital role in helping expand marketplace acceptance and use of biodiesel, and we urge you to continue modest funding for the program.

With the help of the Biodiesel Fuel Education Program, the industry has conducted market outreach, industry coordination, fleet and trucker outreach, petroleum supply chain education, biodiesel research, and we work cooperatively with the Petroleum Marketers Association of America, the PMAA, the International Liquid Terminals Association, the ILTA, and the Society of Independent Gasoline Marketers, or SIGMA, on key infrastructure education.

We have also garnered significant support from engine manufacturers. Currently 34 U.S. auto makers and engine manufacturers warranty their engines to accept the use of B5 or B20, that is biodiesel blends of five percent or 20 percent.

Many manufacturers are now actively promoting their biodiesel capacity and capability. And, for example, Ford has recently begun featuring a B20 emblem prominently on the side of every new Ford Super Duty diesel truck.

Finally, because this Agriculture Committee we should talk about tractors, biodiesel blends are covered under warranty for use in John Deere, Case IH, New Holland, and International Navistar equipment as well as lawn equipment such as YanMar, Ferris, and Toro.

In fact, many New Holland and Case IH tractors are warrantied up to B100. In addition, to the education program, the NBB is urging the Committee to reauthorize the Bioenergy Program for Advanced Biofuels. This program has helped the industry to maintain a stable and expanding manufacturing base as we work to establish ourselves in the competitive marketplace with the entrenched petroleum diesel industry.

Biodiesel is a part of the all-of-the-above energy strategy, and recent oil price spikes should remind us all why this is important, with domestically-produced alternatives to oil, we can reduce the influence that global forces, such as OPEC, have over our economy, a concept that is well understood by consumers who purchase gasoline and diesel fuel.

A recent Gallup poll found that roughly ⅔, including majorities from both political parties, support continued incentives for developing American-made alternative fuels.

In conclusion, the U.S. biodiesel industry is proud to produce the only domestic commercial scale advanced biofuel that is readily available and accepted across the country. We have both the capacity and available feedstocks to increase production and further expand markets for agricultural feedstocks, and the farm bill programs we have discussed will help our small but growing industry gain a sustainable presence in the U.S. fuels marketplace.

Again, I appreciate the opportunity to testify on behalf of the U.S. biodiesel industry. We look forward to working with you on the development of a farm bill and continuation of programs that support the growing U.S. biodiesel industry. Thank you.

[The prepared statement of Mr. Haer follows:]

PREPARED STATEMENT OF GARY L. HAER, CHAIRMAN, NATIONAL BIODIESEL BOARD; VICE PRESIDENT, SALES AND MARKETING, RENEWABLE ENERGY GROUP®, INC., WASHINGTON, D.C.

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee and full Committee, on behalf of the National Biodiesel Board (NBB) I am grateful for the opportunity to testify today regarding the farm bill energy title. I am Gary Haer, Vice President of Sales and Marketing with Renewable Energy Group®, a leading U.S. biodiesel producer headquartered in Ames, Iowa. Our company has biodiesel production facilities in Minnesota, Texas, Iowa, and Illinois, and we have purchased and are updating biodiesel facilities in Louisiana, New Mexico and Kansas. Our focus is on converting natural fats, oils and greases into advanced biofuels. Currently, I serve as Chairman of the National Biodiesel Board (NBB).

Biodiesel is a renewable, low carbon diesel replacement fuel. Like diesel fuel, it is used in trucks, trains, agricultural equipment, mining operations, generators and heating oil. Biodiesel is used in existing diesel engines without modification, and it is made from a broad diversity of feedstocks including recycled cooking oil, animal fats, algae, secondary use agricultural oils from soybeans and canola, and inedible corn oil derived from the ethanol production process. There are approximately 200 biodiesel production plants across the country with a capacity in excess of 3 billion gallons. In 2011, the biodiesel industry produced a record 1.1 billion gallons, breaking the billion-gallon mark for the first time in our short history. By comparison this country uses approximately 55 billion gallons of petroleum diesel fuel each year.

NBB is the national trade association representing the biodiesel industry. NBB has significant roots and ties to U.S. agriculture. It was founded in 1992 with significant investment from the U.S. soybean industry, and since that time, NBB has developed into a comprehensive industry association that coordinates and interacts with a broad range of collaborators including industry, government and academia. NBB's membership is comprised of biodiesel producers; feedstock and feedstock processor organizations; fuel marketers and distributors; and technology providers. Of specific interest to this Committee we work closely with a number of diverse feedstock organizations including the National Renderers Association, the American Soybean Association, the United States Canola Association and the National Restaurant Association.

The industry has production facilities in all but a few states. In fact, 13 of the distinguished Members on this Subcommittee have at least one plant in your districts, including Reps. Lucas, Peterson, Thompson, Holden, Stutzman, Gibbs, Huelskamp, McIntyre, Walz, Owens, Pingree, Noem, and Fudge. The other nine Members of this Subcommittee have biodiesel facilities located in your states.[1]

NBB estimates that those plants and others like them across the country supported more than 39,000 jobs in all sectors of the U.S. economy in 2011. This generated household income of more than $2.1 billion to be circulated throughout the economy, and created more than $3.8 billion in GDP.

Biodiesel facilities are organized as farmer-owned cooperatives, other farmer-owned companies, agribusinesses, and independently owned producers. The facilities, together with the American Soybean Association, United Soybean Board, numerous state soybean associations, the U.S. Canola Association and the National Renderers Association, play an active and important role in the NBB and its Governing Board.

The biodiesel industry is extremely proud of our contribution to creating domestic energy and domestic jobs. Many of our production facilities are located in rural America, where we are an integral part of the local community and have become the primary economic engine driving the local economy. In addition to creating direct manufacturing jobs, our diversified feedstocks and co-products are expanding markets for farmers, livestock producers, renderers, and restaurant owners. In fact, just like the biodiesel facilities in your states, most of the more than 200 biodiesel production facilities in the U.S. are located in rural areas, and a majority of the feedstock used to produce biodiesel is grown or originates in rural areas.

The development of the biodiesel industry isn't just important to America's agriculture and manufacturing sectors. It also plays a key role in diversifying our energy supplies so that our nation is not so dependent on global petroleum prices that can be so damaging to our economy. Biodiesel is part of the "all-of-the-above" energy strategy outlined by many energy leaders across the country, and daily, we add new domestic liquid fuels to the energy independence of this country. The recent oil price spikes should remind us all why this is important. With domestically produced alternatives to oil, we can reduce the influence that global forces such as OPEC have over our economy. Americans increasingly understand this. A recent Gallup poll found that roughly ⅔ of Americans—including majorities from both political parties—support continued incentives for developing American-made alternative fuels like biodiesel.

About Biodiesel

Biodiesel is the first and currently the only fuel being produced on a commercial scale nationwide that qualifies as an Advanced Biofuel under the EPA's Renewable Fuel Standard, which means that it achieves a minimum of 50 percent greenhouse gas emissions reductions relative to petroleum. Along with significant reductions in greenhouse gas emissions, it dramatically reduces most major toxic air pollutants, according to the EPA.

Biodiesel is primarily marketed as a five percent (B5) blending component with conventional diesel fuel, but can be used in concentrations up to twenty percent (B20). In all cases, it must meet a strict technical specification and is distributed utilizing the existing fuel distribution infrastructure with blending occurring both at fuel terminals and "below the rack" by fuel jobbers.

As mentioned previously, biodiesel is proving to be a valuable alternative in unconventional applications such as heating oil and mining. In the mining industry, for example, the U.S. Department of Labor's Mine Safety and Health Administration has documented that replacing diesel fuel with biodiesel at high blend levels will dramatically improve air quality and improve workers' health.

[1] Attached is a list of biodiesel producers.

Biodiesel & the Farm Bill

Given its agricultural roots and the benefits it provides to U.S. farmers and rural communities, programs supporting biodiesel are a critical piece of the farm bill. NBB has a particular interest in two existing farm bill energy title programs—the Biodiesel Fuel Education Program (Section 9006) and the Bioenergy Program for Advanced Biofuels (Section 9005). NBB recognizes that the energy title programs do not have baseline funding beyond 2012, which creates a significant challenge to extending these programs and building on the benefits they have provided.

Section 9006, Biodiesel Fuel Education Program

The Biodiesel Fuel Education Program plays a vital role in helping expand marketplace acceptance and use of biodiesel as a low-carbon, addition or replacement to diesel fuel. NBB urges the continuation of this program with a relatively small investment of $2 million annually in mandatory funding in the 2012 Farm Bill.

In addition to assisting biodiesel to expand into new markets and broaden public awareness, this program supports technical outreach efforts to engine manufacturers, truckers, and fuel marketers. Biodiesel's presence in modern communication tools is just a small part of an all-inclusive education campaign that offers direct education to original equipment manufacturers (OEM's) truck dealers, mechanics, safety experts, fuel distributors, health professionals, and community leaders among countless others.

Since the program began, the number of distributors carrying biodiesel has grown from 800 to more than 1,500. Today more than 150 petroleum terminals carry biodiesel and biodiesel retailers have grown from 200 to more than 1,350.

With the help of the Biodiesel Fuel Education Program, the industry has conducted market outreach, industry coordination, fleet and trucker outreach, petroleum supply chain education, biodiesel research and we have worked cooperatively with the Petroleum Marketers Association of America (PMAA), the International Liquid Terminals Association (ILTA), and the Society of Independent Gasoline Marketers (SIGMA) on key infrastructure education.

Since 2003, NBB has achieved great success in garnering and promoting OEM support for biodiesel through the OEM biodiesel education program. Currently, 34 major U.S. automakers and engine manufacturers warranty their engines to accept the use of B5 or B20. The OEM biodiesel education program continues to play a large role in building the automakers' trust in, and support for, biodiesel blends. Our industry has conducted more than 30 corporate biodiesel education sessions together with numerous direct meetings with OEM's, which has helped all level of OEM personnel more accurately answer biodiesel questions from consumers. Many OEM's are now actively engaged in promoting their positive positions on biodiesel blends.

For example, Ford and General Motors continue to be vocal advocates for B20 biodiesel, partnering with the National Biodiesel Board to promote biodiesel at major venues like the North American International Auto Show in Detroit. Ford even features a prominent B20 emblem on the side of every new Ford Super Duty diesel truck.

In the world of medium duty diesel trucks both Isuzu and Hino have announced support for B20 in their new 2011 and newer models. Isuzu Commercial Trucks has been America's No. 1 selling low cab forward truck every year since 1986. Hino Trucks, a Toyota Group Company, is the World's No. 3 manufacturer.

Finally, because this is the Agriculture Committee we should talk about tractors, biodiesel is covered under warranty for use in John Deere and Case IH equipment. In fact many new Case IH tractors are warrantied up to B100, and John Deere warranties their engines for B20.

Section 9005, Bioenergy Program for Advanced Biofuels

Section 9005 of the 2008 Farm Bill also authorized and provided mandatory funding for USDA to implement the Bioenergy Program for Advanced Biofuels to make payments to producers of advanced biofuels and bioenergy to support a stable and expanding production base. The Bioenergy Program has been beneficial to many biodiesel producers as the industry is still working to establish itself in the competitive marketplace with the entrenched petroleum diesel industry, which enjoys the benefit of decades of infrastructure and market development. Therefore, we urge the Committee to reauthorize this program.

Section 9007, Rural Energy for America Program (REAP)/Infrastructure: NBB also supports efforts by USDA to utilize REAP to support biofuels infrastructure investments. Biodiesel is compatible with existing fuel infrastructure. However, the industry would benefit from increased terminal infrastructure dedicated for biodiesel. We encourage the Committee to consider support for biofuels infrastructure as a component of the next farm bill.

Conclusion: The U.S. biodiesel industry is proud to produce the only domestic, emissions-reducing, commercial-scale Advanced Biofuel that is readily available and accepted in the marketplace across the country. The industry has both the capacity and available feedstock to increase production and further expand markets for agricultural feedstocks.

We are proud of the significant economic, energy, and environmental benefits associated with biodiesel production. Accordingly, the industry and the thousands of employees it represents urge continued mandatory funding for the Biodiesel Education Program as well as reauthorization of the Bioenergy Program for Advanced Biofuels. These investments and support help the small but growing biodiesel industry gain a sustainable presence in the U.S. fuels marketplace.

* * * * *

Again, I appreciate the opportunity to testify on behalf of the U.S. biodiesel industry. We look forward to working with you on the development of the farm bill and the continuation of the programs that support the growing U.S. biodiesel industry.

ATTACHMENT 1

Biodiesel Plants in Oklahoma

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
F&F Automotive Inc. dba SEO-Bio (South East Oklahoma Biodiesel)	Valliant	3,000,000	Dan Boren	
High Plains Bioenergy	Guymon	30,000,000	Frank D. Lucas	
Total Capacity:		**33,000,000**	**Jobs Capacity:**	**1,288**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:****	**1,199**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Minnesota

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Minnesota Soybean Processors	Brewster	30,000,000	Tim Walz	
REG Albert Lea, LLC	Albert Lea	30,000,000	Tim Walz	
Ever Cat Fuels, LLC	Isanti	3,000,000	Chip Cravaack	
FUMPA BioFuels	Redwood Falls	3,000,000	Collin C. Peterson	
Total Capacity:		**66,000,000**	**Jobs Capacity:**	**2,576**
Actual 2011 Production:		**56,707,822**	**Total Jobs Supported in 2011:****	**2,221**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Pennsylvania

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
American Biodiesel Energy, Inc.	Erie	4,000,000	Mike Kelly	
Lake Erie Biofuels dba HERO BX	Erie	45,000,000	Mike Kelly	
Pennsylvania Biodiesel, Inc.	Monaca	25,000,000	Jason Altmire	
Eagle Bio Diesel Kane	Kane	5,000,000	Glenn Thompson	
US Alternative Fuels Corp.	Johnstown		Mark Critz	
United Oil Company	Pittsburgh	5,000,000	Michael Doyle	
Smarter Fuel, Inc.	Wind Gap	15,000	Charlie Dent	

Biodiesel Plants in Pennsylvania—Continued

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Middletown Biofuels LLC	Middletown	4,000,000	Tim Holden	
Keystone BioFuels, Inc.	Camp Hill	24,000,000	Todd Russell Platts	
Soy Energy, Inc.	New Oxford	2,500,000	Todd Russell Platts	
Environmental Energy Recycling Corp, LLC	Allentown	0	Charlie Dent	
Nittany Biodiesel	Boalsburg	15,000,000	Glenn Thompson	
Total Capacity:		**129,515,000**	**Jobs Capacity:**	**5,055**
Actual 2011 Production:		**40,818,098**	**Total Jobs Supported in 2011:****	**1,593**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.

The IMPLAN economic model was used which includes direct and indirect jobs.

Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Indiana

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Heartland Biofuel	Flora	500,000	Joe Donnelly	
Louis Dreyfus Agricultural Industries, LLC	Claypool	80,000,000	Marlin A. Stutzman	
Triton Energy LLC	Waterloo	0	Marlin A. Stutzman	
Alternative Fuel Solutions, LLC	Huntington	800,000	Dan Burton	
Integrity Biofuels	Morristown	5,000,000	Dan Burton	
E-biofuels, LLC	Middletown	15,000,000	Jeb Hensarling	
Countrymark Cooperative	Indianapolis	15,000,000	Andre Carson	
Bio-Aiternative	Covington	15,500,000	Larry Buschon	
Bioenergy Development Group LLC	Fishers	0	Dan Burton	
Global Energy Resources	New Haven	0	Marlin A. Stutzman	
Total Capacity:		**131,800,000**	**Jobs Capacity:**	**5,144**
Actual 2011 Production:		**105,361,581**	**Total Jobs Supported in 2011:****	**4,112**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.

The IMPLAN economic model was used which includes direct and indirect jobs.

Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Ohio

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
FINA LLC (FELDA IFFCO, LLC)	Cincinnati	60,000,000	Steve Chabot	
Peter Cremer NA	Cincinnati	30,000,000	Steve Chabot	
Jatrodiesel Inc.	Miamisburg	5,000,000	Michael Turner	
Agrifuels, LLC	Bremen	1,000,000	Steve Austria	
Ambiol Flex Fuels, LLC	East Toledo	2,000,000	Marcy Kaptur	
Midwest Bio Renewables	Toledo	1,500,000	Marcy Kaptur	
Center Alternative Energy Company	Cleveland	5,000,000	Marcia L. Fudge	
Chieftain BioFuels, LLC	Logan	2,000,000	Bob Gibbs	
Arlington Energy, LLC	Mansfield	4,000,000	Jim Jordan	
Total Capacity:		**110,500,000**	**Jobs Capacity:**	**4,312**
Actual 2011 Production:		**4,978,489**	**Total Jobs Supported in 2011:****	**194**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.

The IMPLAN economic model was used which includes direct and indirect jobs.

Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in North Carolina

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Piedmont Biofuels	Pittsboro	3,300,000	Renee L. Ellmers	
Patriot Biodiesel, LLC	Greensboro	6,900,000	Howard Coble	
Triangle Biofuels Industries, Inc.	Wilson	3,000,000	Walter Jones	
Leland Organic Corporation	Leland	10,000,000	Mike McIntyre	
Foothills Bio-Energies, LLC	Lenoir	5,000,000	Patrick McHenry	
Blue Ridge Biofuels	Asheville	1,200,000	Heath Shuler	
Total Capacity:		**29,400,000**	**Jobs Capacity:**	**1,147**
Actual 2011 Production:		**2,127,334**	**Total Jobs Supported in 2011:****	**83**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in New York

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Aufbau Renewable Energy, Inc.	Blue Point	110,000	Tim Bishop	
Metro Fuel Oil Corp	Brooklyn	110,000,000	Nydia Velázquez	
TMT Biofuels, LLC	Port Leyden	250,000	John McHugh	
Northern Biodiesel, Inc.	Ontario	20,000,000	Anne Marie Buerkle	
Adirondack Biodiesel	St. Johnsville	1,500,000	William L. Owens	
R–3 Energy	Tarrytown	1,500,000	Nita M. Lowey	
NAGSCO Corporation	Larchmont	0	Nita M. Lowey	
Total Capacity:		**133,360,000**	**Jobs Capacity:**	**5,205**
Actual 2011 Production:		**792,530**	**Total Jobs Supported in 2011:****	**31**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Maine

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Maine Standard Biofuel	Portland	1,500,000	Chellie Pingree	
Total Capacity:		**1,500,000**	**Jobs Capacity:**	**58.5405**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:****	**0**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Kansas

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Emergent Green Energy	Minneola	2,000,000	Tim Huelskamp	
R–3 Energy, LLC	Cottonwood Falls	0	Tim Huelskamp	
REG Emporia, LLC	Emporia	60,000,000	Tim Huelskamp	
Kansas Biofuels	Wichita	1,800,000	Mike Pompeo	
Healy Biodiesel, Inc.	Sedgwick	1,200,000	Mike Pompeo	
Total Capacity:		**65,000,000**	**Jobs Capacity:**	**2,537**

Biodiesel Plants in Kansas—Continued

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Actual 2011 Production:		**819,478**	**Total Jobs Supported in 2011:****	**32**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in South Dakota

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Hanson County Oil Producers, LLC	Alexandria	7,000,000	Kristi L. Noem	
Total Capacity:		**7,000,000**	**Jobs Capacity:**	**273**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:****	**3**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Illinois

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Loyola University Chicago	Chicago	0	Janice Schakowsky	
REG Seneca, LLC	Seneca	60,000,000	Adam Kinzinger	
Stepan Company	Millsdale	22,000,000	Adam Kinzinger	
lncobrasa Industries, Ltd.	Gilman	32,000,000	Timothy V. Johnson	
REG Danville, LLC	Danville	45,000,000	Timothy V. Johnson	
BioVantage Fuels, LLC	Belvidere	3,600,000	Donald A. Manzullo	
Midwest Biodiesel Products, LLC	South Roxana	12,000,000	Jerry F. Costello	
Total Capacity:		**174,600,000**	**Jobs Capacity:**	**6,814**
Actual 2011 Production:		**96,032,317**	**Total Jobs Supported in 2011:****	**3,748**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Tennessee

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Southern Alliance for Clean Energy	Knoxville	380,000	John J. Duncan, Jr.	
Sullens Biodiesel, LLC	Morrison	2,000,000	Scott DesJarlais	
TN Bio Energy	Manchester	5,000,000	Scott DesJarlais	
Milagro Biofuels of Memphis	Memphis	5,000,000	Steve Cohen	
Total Capacity:		**12,380,000**	**Jobs Capacity:**	**483**
Actual 2011 Production:		**542,681**	**Total Jobs Supported in 2011:****	**21**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Colorado

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Biofuels of Colorado (Denver)	Denver	15,000,000	Diana DeGette	
Total Capacity:		**15,000,000**	**Jobs Capacity:**	**585**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:****	**0**

**Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Florida

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Agri-Source Fuels, LLC	Dade City	10,000,000	Rich Nugent	
Eco Venturs Group, Inc.	Groveland	3,600,000	Rich Nugent	
Smart Fuels Florida, LLC	Fruitland Park	500,000	Cliff Stearns	
Quantic Energy Corporation	Orlando	5,000,000	Daniel Webster	
Viesel Fuel LLC	Stuart	3,650,000	Thomas J. Rooney	
Green Biofuels Corporation	Miami	0	Frederica Wilson	
Heartland Bio Energy, LLC	Palm Beach County	5,000,000	Allen West	
Genuine Bio-Fuel	Indiantown	6,000,000	Alcee Hastings	
Greenwave Biodiesel	Ft. Lauterdale	3,600,000	Alcee Hastings	
Johnson Biofuels	Fort Lauderdale	1,000,000	Alcee Hastings	
Green Gallon Solutions of North America	North Ft. Meyers	2,000,000	Connie Mack	
Southeast BioDiesel, LLC Sanford	Sanford	10,000,000	John Mica	
Biofuel Consultants of North America	Estero	0	Connie Mack	
Chemline Products, Inc.	Clearwater	0	C.W. Bill Young	
Total Capacity:		**50,350,000**	**Jobs Capacity:**	**1,965**
Actual 2011 Production:		**3,803,023**	**Total Jobs Supported in 2011:****	**148**

**Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Alabama

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Castle Rock Industries	Selma	40,000,000	Terri A. Sewell	
Southeastern Biodiesel Solutions	Creola	1,300,000	Jo Bonner	
Total Capacity:		**41,300,000**	**Jobs Capacity:**	**1,612**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:****	**0**

**Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Wisconsin

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Bio Blend Fuels, Inc.	Manitowoc	2,600,000	Thomas Petri	

Biodiesel Plants in Wisconsin—Continued

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Sanimax Energy, Inc.	Deforest	20,000,000	Tammy Baldwin	
Sun Power Biodiesel	Cumberland	30,000,000	Sean Duffy	
Walsh Bio Fuels, LLC	Mauston	5,000,000	Ron Kind	
Total Capacity:		**57,600,000**	**Jobs Capacity:**	**2,248**
Actual 2011 Production:		**0**	**Total Jobs Supported in 2011:** **	**0**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Oregon

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Aspen Biofuel	Portland	0	Earl Blumenauer	
Beaver Biodiesel, LLC	Albany	940,000	Peter A. DeFazio	
Total Capacity:		**940,000**	**Jobs Capacity:**	**37**
Actual 2011 Production:		**N/A**	**Total Jobs Supported in 2011:** **	**0**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

Biodiesel Plants in Virginia

Company	City	Annual Capacity (Gallons/Year)	U.S. Representative	
Virginia Biodiesel Refinery	West Point	8,000,000	Robert Wittman	
RECO Biodiesel, LLC	Richmond	1,700,000	Bobby Scott	
Red Birch Energy, Inc.	Bassett	3,000,000	Morgan Griffith	
Synergy Biofuels, LLC	Pennington Gap	3,000,000	Morgan Griffith	
Shenandoah Agricultural Products	Clearbrook	300,000	Frank Wolf	
Total Capacity:		**16,000,000**	**Jobs Capacity:**	**624**
Actual 2011 Production:		**1,514,068**	**Total Jobs Supported in 2011:** **	**59**

** Employment figures show number of direct and indirect jobs supported in each state considering 2011 production volumes.
The IMPLAN economic model was used which includes direct and indirect jobs.
Feedstock Approved by the EPA for Biodiesel Production: Animal Fats, Biogenic Waste Oils and Grease, Soybean Oil, Canola Oil, Oil from Annual Cover Crops, Algal Oil, Non-Food Grade Corn Oil.

The CHAIRMAN. Thank you, Mr. Haer.

There are votes on the House floor called just a minute or so ago. My intention is that we will get through probably about 10 minutes of questioning, and then we are going to have to recess until after this vote series is over on the House floor. So the plan will be that we will reconvene 10 minutes from the start of the last vote on the House floor to give everybody a benchmark. And I appreciate everybody's patience on that.

So the chair would like to remind Members that they will be recognized for questioning in the order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. And I appreciate Members' understanding. I now recognize myself for 5 minutes.

Mr. Reinford, you mentioned that biogas can be utilized in existing natural gas infrastructure.

Can you elaborate, talk a little more about this and what kinds of future applications and opportunities might there be for this energy, given your on-the-field, on-the-ground experience on your farm that you have seen?

Mr. REINFORD. That is good. Yes, I have access to methane right now, so we are looking at CNG-ing, compressing it, and using it in some of our farm pickup trucks, and using it in some of our dump trucks we haul forages in, utilizing that technology. There was a farm out in Indiana they are actually hauling, compressing, hauling their milk, so that is the kind of thing we are looking at as the next generation. We are actually flaring right now. We are making too much gas, as Jim said. There are other opportunities. We are actually self-sufficient. If we could bring something else in here, we could be a fossil fuel free. If I could get something like that in this other technology coming in on the farm. So that is what we are looking at right now.

The CHAIRMAN. When you are looking at the CNG with your trucks, tractors that type of thing——

Mr. REINFORD. That is correct.

The CHAIRMAN. Have you really looked at the numbers? Is that economically something that works for you in terms of making that conversion? You obviously have the fuel readily available if you are flaring off that methane.

Mr. REINFORD. That is good. The numbers are about $1.60, $1.70 for me right now for me in my size. The larger I get, the better we see the numbers come down. So right now that technology needs to be improved yet. I think they are still working on that to make it more affordable for dairy farms. The technology is there, it is just a matter of making it more affordable.

The CHAIRMAN. Thank you.

Mr. Greenwood, you suggested that energy programs such as the Biobased Market Program are fostering innovation and cited a biorefinery in Louisiana. Can you give me any other examples of how these programs help drive innovation, especially innovation of new technologies?

Mr. GREENWOOD. Certainly. Thank you for the question.

The newest part of all of this is really the ability to convert cellulose into sugars that can then be distilled into ethanol. We have known how to take the starch part of the plants and convert it into sugar since they have been making corn whiskey, and before then. But the cellulosic part of the plant, the stems, the stalks, the woody parts, they evolved over millions of years to be structural and to be hard to break down. And so the challenge was how can we find, how can we use biotechnology to develop enzymes and bacteria that can actually break down that material?

And that is what our companies have succeeded in doing now, and that is what we are moving towards commercialization with. The ability to then use, for farmers to take two crops when they take their corn kernels and sell them the way they ordinarily do, but to be able to use their corn cobs and the corn stalks and the stover to be able to use byproducts from the forestry industry, to be able to use Miscanthus and switchgrass, all of that on land that might not be that usable for normal agriculture.

This is the advanced biofuels which our nation is ultimately, if we succeed at this, is going to depend upon and which will give us all of the benefits that you have heard from others about energy independence and a more environmentally sustainable way of producing energy.

The CHAIRMAN. Thank you.

Mr. Taylor, what kinds of policy or eligibility changes would you suggest to help ensure that BCAP dollars are being spent where they were intended?

Mr. TAYLOR. As we all know, BCAP got off to a rough start with matching payments, and I think that is a testimony to the difficulty of solving this chicken-and-egg problem. But the one recommendation that we would make would be that the projects, there is a tendency in the rule to try to spread the money among as many projects as possible. My suggestion would be to allow USDA and FSA to see projects through to maturity would be probably the number one recommendation.

The CHAIRMAN. Okay. Thank you. I now recognize, for 5 minutes of questions, Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman. And Mr. Reinford just to set the record straight, besides you and Chairman Thompson, Mr. Greenwood and myself are proud Pennsylvanians as well. And we know your home county is pronounced *Juniata* not *Juanita* as a U.S. Senator did in 1992. That didn't work out too well.

Look, those of us on this Committee who were here in 2002 and 2008 are proud of the work that we did in the energy title. But we are in a jam. The Super Committee had no mandatory funding, the United States Senate Agriculture Committee has $800 million. We want to fund as much as possible, but we are in difficult waters right now.

If we could only fund three programs, what three would you recommend funding and where would you suggest we take the money from to fund those? Ryan used to be my neighbor.

Mr. STROSCHEIN. I think that is a fair question. It is a difficult question.

Mr. HOLDEN. That is what we are facing.

Mr. STROSCHEIN. I know you are. Clearly the budget situation here is very austere, and you have to make some tough decisions. I don't know that I could name three. I did name four in my testimony that we are very supportive of as members of the Ag Energy Coalition. We think that these programs, the energy programs, have demonstrated their value and their is some real national interest here in finding the resources to keep this funding going, we are very supportive and appreciative of the work the Senate was able to do to find $800 million for these programs. It is less than the 2008 bill had, but it is still a significant investment.

We think there are environmental, national security and economic benefits to doing this. And so we encourage the Committee to do that. I don't know that I have a silver bullet answer for you as to how to find that money or where it should come from. But we are here to make the case that these are very vital programs, and we will work with you to try to find that funding.

Mr. HOLDEN. Anybody else? Mr. Greenwood.

Mr. GREENWOOD. Our priorities would be the Biorefinery Assistance Program, BCAP and the Biobased Markets Program. And certainly as one who has served with you for 12 years, I understand the dire straits that this nation is facing in terms of our spending problems and our budget.

The farm bill, as a whole, is a subsidy bill, and it is a question of establishing priorities. And my message to you folks on this Committee is to be very visionary in terms of where is the future for our children? And I would argue that the future is going to depend upon our ability to make fuels in ways we haven't been able to before. The science has brought us to this point. And shortly, commercial—the market will take us the rest of the way. What we need from this Committee is the bridge, the bridge to enable these entrepreneurs out there to demonstrate the commercial ability of these technologies. And we are quite confident that once they do with these loan guarantees and so forth that the commercial bankers will move in and this country will be off on a grand adventure.

Mr. HOLDEN. Does anyone else care to comment?

Mr. TAYLOR. Yes, thank you. I think the priorities are not just amongst the decisions within the Subcommittee, the programs, but as well as national priorities. Most analysts would predict that what we will see in global BTU or energy costs for the next decade are going to be substantially higher on an average level than we saw in the last decade. So a lot of these programs, particularly BCAP, which was a very difficult chicken-and-egg problem to solve, this has made the possibility of very successful results more possible because the bar has, in essence, been lowered because of the price of energy being significantly higher. I think that is one reason.

And the other, when we try to set priorities, that 75 percent of the oil in this country is transportation fuels, is used as transportation fuels. And cellulosic fuel on the Renewable Fuel Standard 2 to be 36 billion gallons by 2022 is a very important goal. If that is to be achieved, we are now just on the cusp of making the breakthroughs that we needed to make. And largely because of higher prices in oil markets, there is a greatly deal of activity, of entrepreneurial activity to solve these problems.

To cut the legs out from underneath these programs at this time, at least in my opinion, would be bad timing because it is all starting to work at this point.

Mr. HOLDEN. Thank you Mr. Chairman. Our time has expired and for the vote as well.

The CHAIRMAN. I thank the panel. And I would ask your patience. We will have a recess. We will reconvene for further questions 10 minutes following the start of the final vote.

So thank you.

[Recess.]

The CHAIRMAN. The Subcommittee on Conservation, Energy, and Forestry will reconvene. I once again apologize for the recess we had to take. The only good news I can share is that votes are done for the day, so no more votes to interrupt.

So, at this time, I am pleased to recognize the gentleman from Ohio, Mr. Gibbs, for 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman, and thank you for holding this hearing. I think I have always been excited about agriculture being a major solution to our energy, making us move toward energy independence.

Mr. Reinford, a couple questions. On your digester, when you run your dairy manure through it, after it is digested, what is left? What is the byproduct? You know, what are the nutrient levels, or what is the material that is left?

Mr. REINFORD. After we digest it, we run it through a screw press, and what you see in here, we actually take all the solids out of it, and actually after the solids are taken, we actually use that for cow bedding, and that is one of the biggest incomes that has come off this technology now. We are actually bedding cows with that and getting a very good response on somatic cell counts—we are running right around the 120, 120 mark, and that is really a big plus for the dairy industry. The last 3 years, we have been getting a 60¢ bonus because of good quality milk, so that is a big area.

The nutrients, it does not change, doesn't take the nutrients out, but it does change the form of nutrients. It is more available in the first year of planting, so that is a big plus for us farmers. We are actually, we actually double crop a lot. In our farms, we actually use up a lot of the nutrients, so we actually buy no commercial fertilizer P and K, except the nitrogen, we need a little extra nitrogen, so it is a big plus all around for us guys.

Mr. GIBBS. I couldn't quite hear you; you said the nutrient part for the first year, it was a bigger plus, because is it more available?

Mr. REINFORD. That is exactly right. It changes the form of the nitrogen to more of a hydrogen sulfite or sulfur, so it is more available to your crops, that is actually your P and K.

That is through the Penn State University's studies, so the guy is telling me in the first year, you use up almost all your nutrients. If you don't go through digestion, it takes sometime up to 3 years, and that is a big plus for digesters, too, in the whole way of the watersheds. We are using up the nutrients right away. We do no-tilling—we do all no-tilling, no conservation tillage, so it is a win-win for Pennsylvania.

Mr. GIBBS. That is one of the reasons why I have been so excited about this digesting is because it creates an energy source, and it also enhances the environment. You just said that because let's use phosphorous—the crops, what you are putting on the crops use it in the first year, so it is not sitting around there in the bank of soil, and if you have any erosion or wash off, it becomes soluble phosphorous, so it is enhanced. So agriculture is playing a big part in enhancing the environment.

Second question, Mr. Reinford. You know, I know there are lots of digesters over in Europe, Germany. We are doing some in my area, but there are still only about 200 in the country. What is the—what do you see, when you talk to other farmers—has been the big roadblock for livestock operations to put in digesters?

Mr. REINFORD. That is a good question, too. The number one thing is for us farmers, educating us, and I am out doing some of the pioneer work, I am actually training some, going to different places and educating farmers, and at some of the seminars, we actually sold another four digesters in Pennsylvania just by seeing the efficiency of the digestion. Germany, right now, I know they had like 6,800 digesters the last I studied about that. They have it over there. They actually have 100 cow dairies, and they are telling us here we need 800 cows. I disagree with that. We can go to smaller farms and be very profitable with smaller digesters.

Mr. GIBBS. What ballpark would you think would be an initial capital investment for a small digester, and how many—since you are in the dairy operation, how many cows would make it feasible would you have to have?

Mr. REINFORD. Well, that is a good question. If you allow us to put food waste in there, we can go down as low as 200 cows, 300 cows, and that is the thing that is making me so profitable. We are bringing in some of the other food stocks in here, like food waste from Wal-Marts, and there are two other food chains; they want me to come on board with bringing that, but I need more digesters, so we can go down as low as 200, 300 cows.

Mr. GIBBS. What kind of capital costs do you think that would require?

Mr. REINFORD. My digester cost me $1.1 million. That is top notch. That is everything. That is the whole thing. I think with some of the regulations now with some of the new motors, we are talking maybe a million and a half, something like that. I am proving it can be done. It can self-sustain itself, but we need a little bit more support just to keep farmers encouraged; say, look, there is some money out there that may be available to keep this technology going. But, yes, it is good stuff.

Mr. GIBBS. Just a quick question for Mr. Taylor. BCAP, what can we do to make it better?

Mr. TAYLOR. Congressman, I think the one issue is this strong tendency to try to diversify and take as many projects into play as possible. Even though I can't commend the people at FSA and USDA enough for sorting out the complexity of these different programs because they are very complex and trying to understand them, but the emphasis needs to be on seeing programs through to maturity, not just shotgunning. They need to have more of an emphasis on the whole maturation process so the money just doesn't fall down rat holes, so to speak.

Mr. GIBBS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I have a question I want to ask and extend to whoever on the panel would like to respond to it. Obviously the initial goal of the energy title in the 2008 Farm Bill was to spur the development of commercially viable cellulosic ethanol and advanced biofuels. However, I am not sure that a single gallon of commercial cellulosic ethanol has been blended into the fuel supply, so it is a two-part question for the panel, anyone on the panel that would like to respond to it. What challenges need to be addressed in order to address that issue? And does the current energy title provide the tools to move towards the advancement of commercially viable cellulosic ethanol?

Congressman, if you would like to start.

Mr. GREENWOOD. Mr. Chairman, as I mentioned, first of all, let me say, I understand the impatience. We have been impatient as well. The science has progressed nicely. One of the things that slowed us down was the recent recession. It made it tough. But as I mentioned in my original opening testimony, this plant, INEOS plant, is literally weeks away, it is completed. The structure is completed, and they are going to be producing cellulosic ethanol literally within the next couple of weeks, so we have demonstrated now that the science is there. I think we have demonstrated with the construction of this plant that you can build a commercial facility, and now being able to demonstrate that we can move those fuels into the fuel stream for motorized vehicles is the final step to prove the whole concept.

Mr. TAYLOR. Congressman, if I may, one short quick statement on that. Since it has become common knowledge globally that we are actually amassing a significant amount of biomass, as an example, it takes 1,000 acres, even at 12 tons an acre that we produce, to produce a million gallons of cellulosic ethanol on the known conversion rates today.

In Missouri, we have had companies as far as Japan come to Missouri because of the awareness now by cellulosic ethanol technology owners of the fact that, one, the price of oil is significantly higher, so they are more competitive, but number two is they are finally figuring out the chicken and the egg problem, which is you can develop all the technologies, but if you don't have the biomass, you have a mismatch, and it does take a significant amount of—and because of BCAP and what has happened just in our Ohio, northern Ohio, Congressman, in our project area up there, one in northern east Arkansas, the two in Missouri, we have had numerous global players come to Missouri to investigate.

Mr. HAER. And, Chairman, you asked about advanced biofuels, and while I can't speak to cellulosic, but certainly biodiesel is an advanced biofuel, and it is one that is commercially available today. From our standpoint, the Biodiesel Education Program, which has a modest amount of funding, we ask that that continue because it does help, and it is very vital to us having marketplace acceptance of our fuel in the marketplace, and so from an advanced biofuel standpoint, it is here, it is available, it is being accepted in the marketplace. We just need to continue that effort.

The CHAIRMAN. Well, thank you.

I now recognize the gentleman from Colorado, Mr. Tipton, for 5 minutes.

Mr. TIPTON. Thank you, Mr. Chairman, and I thank the panel for being here.

I guess the first kind of comment, Mr. Reinford, you are giving me hope with manure in terms of becoming a fuel. If you need a little more supply, we have some horses and a very productive llama that I would be happy to send out to you.

Mr. Taylor, I guess I would like to ask you a question because I am intrigued. We have held a Subcommittee hearing in Small Business that I chaired, talking about the Miscanthus Giganteus as a very productive crop to be able to put out. Is that a fairly low water usage crop? Is that applicable for areas like mine in Colorado and the High Sonoran Desert?

Mr. TAYLOR. It is water tolerant.

Mr. TIPTON. Once established?

Mr. TAYLOR. Yes, more water, it does better, but it can survive on less water. In fact, in our 300 acre propagation field, which is northwest of Wichita, Kansas, received only 7 inches of rain in 12 months last year, it was the only thing alive out there, produced half a crop and survived it. So it does survive in it, but it prospers in areas that would be typically east of there less arid than what you expect.

Mr. TIPTON. Great. You commented in your testimony that we need to be able to see the existing projects through to maturity. Can you define for me a little bit what maturity is and when we expect to be able to receive that because part of our job obviously here as well is to be good stewards of taxpayer dollars, and we want to be able to see these—it needs to be all of the above. Our alternative fuels need to be able to reach a point where they are actually competitive and affordable without subsidization ultimately in the marketplace. Can you speak to that a little for me, please?

Mr. TAYLOR. Yes, Congressman.

I have spent several days in Washington in the last year since we have applied for the BCAP funding last winter, 2 winters ago now, and I have had almost no conversations about exit strategies. In other words, the conversations are about initial funding, what you are going to do, and what is your vision. But the programs themselves don't seem to have an emphasis on, okay, if we get started, what is your exit strategy to get off the public trough, when do we start to see a return on this investment? And we think we clearly pointed that out, that we needed 3 years because biomass is different than if you are funding a single technology. We are not trying to do that.

What we are trying do is break the chicken-and-egg cycle. We have to get enough biomass in place to encourage the technologies and bring them even to this country, if not to our particular locales.

Mr. TIPTON. So you effectively see a 3 year window, and it will be sustainable on its own; we will be able to build those reserves?

I believe it is going to be the next panel, Mr. Chairman, we actually have a lot of reserves in my area on public lands, dead and downed standing timber.

Mr. TAYLOR. There are reserves there. But we have all over the central part of the country a CRP program, crop set-aside, which pays farmers not to plant. A lot of that ground we have had several people who have CRP land who would like to get out of that program and come into this program, put a productive crop on it. It is a perennial. Even though you have 1 year of exposure of erosion, you have—it is in place for 15 to 20 years, so from a conservation standpoint, it works very nicely. Those types of pieces need to be put in place.

Mr. TIPTON. You know, one thing many of us have a problem with is the continual overreach of government when it comes to the regulatory process that we are seeing, and in your testimony, the current regulations dictate assessment and other projects, the ill-advised effect of pulling the plug. Can you tell us how some of the regulations that you are incurring right now are inhibiting your ability to be able to make a cash-flowing productive product?

Mr. TAYLOR. Well, the whole EA, the environmental assessment process is very worthwhile, particularly in a crop that has never been planted in any numbers in this country. But the regulations, I am not sure in that statement, if I understand it right, whether we are looking at regulations as it pertains just to this crop or——

Mr. TIPTON. I was just trying to go actually off your statement where you had noted some regulatory inhibitions in terms of being able to move forward.

Mr. TAYLOR. I think what I am referring to there is how the regulation is written. The FSA has a tendency even now, we had 1 year worth of funding, we had made an application this year and may not receive anything, which seems preposterous to us when we are actually a successful proven direction in making the progress because the emphasis is on spreading the—in starting to do many new projects so they can get going rather than seeing through to fruition a project that is already going, particularly in biomass because it is not a 1 year event. It takes a long time. You have to do it to get it done.

Mr. TIPTON. Thank you, Mr. Chairman.

I yield back.

The CHAIRMAN. I thank the gentleman.

I now recognize the gentleman from Wisconsin, Mr. Ribble, for 5 minutes.

Mr. RIBBLE. Thank you, Mr. Chairman.

Thanks to the panel for coming.

I will start right away with Mr. Reinford. Did I pronounce that correctly?

Mr. REINFORD. That is correct.

Mr. RIBBLE. Great. I come from the part of Wisconsin that is the second largest dairy-producing area in the United States. Digester technology is pretty popular and becoming more popular by the day. Would you mind sharing with the panel, if you are willing, what type of capital expense you had to invest to put in digester technology at your farm?

Mr. REINFORD. Yes. Back in 2008, our digester cost me $1.1 million.

Mr. RIBBLE. A million point one dollars. How much of that was subsidized through some type of Federal program, not a loan but actual pure subsidy grant?

Mr. REINFORD. We had 50 percent grant money that went through REAP, also through Pennsylvania Energy Harvest Grant.

Mr. RIBBLE. Okay, 50 percent?

Mr. REINFORD. Fifty percent, and that is low interest—well, I shouldn't say low. Right now, it is low interest money, four percent money.

Mr. RIBBLE. So roughly about $550,000?

Mr. REINFORD. That is correct, yes.

Mr. RIBBLE. True capital investment.

Mr. REINFORD. Yes.

Mr. RIBBLE. How long will it take to pay it back?

Mr. REINFORD. Two years.

Mr. RIBBLE. Okay. Am I safe to say without this subsidy, would it have taken 4 years to pay it back?

Mr. REINFORD. This past year, we had an extremely good year simply because we are bringing food waste in from other sources, and that is a tipping fee, and so that gives us about a third a percent of our income was coming from tipping fees. So for the farmers that don't have that access to that, you are going to be looking down a road probably 5, 6, 7 years, I am not sure. But I will say this, my son's business is going through the process right now, he has a farm down the road that is actually raising our replacement animals and dry cows. He is actually putting a digester in; with the new regulations, he is at $1.6 million. So the regulations have changed since I was there, so the cost is going to be higher. But we are finding ways that we can make it profitable, more profitable, let's put it that way.

Mr. RIBBLE. Are other forms of manure just as effective as cow manure?

Mr. REINFORD. Horse manure, no, you can keep that in Colorado, but pig manure is good. We have a central Pennsylvania pig manure operation going, and he is doing real well with it. Chicken manure, it has got to be a liquid type of manure; that is correct.

I was at a conference in Wisconsin here at Madison, Wisconsin, so I know all about Wisconsin digesters, good place.

Mr. RIBBLE. We have good things going.

Mr. Taylor, I appreciate your comments on an exit strategy. Comments around this building are that the closest thing to eternal life is a government program. One of my concerns is with all of these programs, and really, Mr. Taylor, if you could respond and anybody else that would like to within the time frame that we have here, it seems to me, and I am a former business owner, it seems to me that business owners have a tendency to build pricing based on whatever the subsidy is. Then, without an exit strategy, they are always back here wanting the program continued because now they have established a marketplace that has been based on a false market premise about below-price product. How do we know we are not just falling into the same trap here with you all?

Mr. TAYLOR. Well, and I can only speak to the biomass portion of that, but the FSA rule as it was written was absolutely, the thinking was so dead-on when they talked about the chicken-and-egg problem. The payments that we received in biomass did not go to MFA Oil Biomass, they went to the farmers to get them to commit acres into the program, and knowing that they are in the program, then we went ahead and invested the money in the environmental assessments, which are hundreds of thousands of dollars, in designing a planter with an English company actually that we are now producing in the center of Kansas to plant this, it was planted by hand 2 years ago. The equipment now is being manufactured here.

MFA Oil Biomass is making all of those investments, and what is happening and the other, what MFA Oil Biomass, the role that they play is the integrator, the vertical integrator. That biomass, it was a very complex problem to solve because nobody knew where to start with it. It is not only a nonexistent crop for the most part in this country; it is a nonexistent industry. So where to start was a huge problem. Hence, some of the fits and starts with the wood industry and BCAP originally. It was not what it was intended to do.

It was intended to break the chicken-and-egg problem. The crop now is in fact being planted, but you need to plant enough of it so you have a critical mass to support the processing facilities, to attract a 25 or 50 million gallon ethanol, cellulosic ethanol plant, which we know that technology is advancing takes 25,000 to 50,000 acres of Miscanthus. In our one project in central Missouri, we had to demonstrate with our EA that there was three times that amount of available non—this is land that doesn't compete in the food *versus* fuel debate. This is land for the most part that is nonproductive. And so in our particular case, it was very effective money spent, and it did exactly what it was supposed to do, but it can't be done in 1 year. It takes 1, 2, 3 years, because we didn't even have a planter when we started. We were planting 5, 10 acres a day.

Mr. RIBBLE. Right. Well, is it possible we are going to be here 5 years from now and we are still going to be hearing we need another 3 years?

Mr. TAYLOR. In the technologies, I couldn't answer that.

Mr. RIBBLE. The concern is—and, Mr. Chairman, would you yield 2 more minutes? Thank you. The concern obviously is that as technology advances there is always going to be a need to fund more technology, and at some point, the industry has to fund its own technology, and so I appreciate your feedback on that.

I would like to go to Mr. Greenwood.

Go ahead.

Mr. TAYLOR. Just one. What we have done specifically to bridge that gap is we have three projects underway: One is traditional pelletizing in a furnace operation, which we developed to be able to supply agricultural heating, that is in play with a hundred furnaces. The second one we have done is this plant is rather remarkable in how it changes the soil structure down 4 and 5 feet. Missouri is made up of a foot of somewhat topsoil, and then there is a hard clay pan, and it is very drought resistant—drought prone because the water doesn't go in. In northern Arkansas, the reason we are in Arkansas is the State of Arkansas wanted us there because they have a lot of that soil that has been abused. We now have had it in four places. At 5 feet down, in a hard clay pan, you can actually break that soil apart because the huge amount of biomass that is up above, there is a similar amount of organic matter in the soil, and we are now changing the soil complexions that we are in the process now of signing contracts on our first four installments of sewer, of wastewater, the EPA and the wastewater projects that are paralyzing cities in the Midwest right now. We are actually planting Miscanthus, which is changing the soil complexion with forced below-ground irrigation, drip irrigation, and contracting to take that waste. Even those types of kind of offshoots would never have happened if it wasn't for the BCAP program that started to establish this crop.

So what we are doing is finding several industries around it to bridge the gap to get off the public trough. We know when that happens, it happens, and we have a plan, very solid plan for 3 years.

Mr. RIBBLE. Okay. I will go ahead and stop you there.

Mr. Greenwood, you have a unique perspective on this because you have seen both sides. What is your take?

Mr. GREENWOOD. Well, thank you, Congressman. I think you are wise to express that concern. We have looked across the energy spectrum. There are sources of energy, whether it is nuclear power, whether it is oil and gas, that have been subsidized for a very, very long time, and particularly if the price builds in that subsidy, it can't compete without it, and then you have the closest thing to eternal life.

That is not our vision. Our vision is that we will, in a relatively short period of time, because of the assistance of these loan guarantees, which have provided the private sector with some sense of confidence that they can invest in the INEOS plant $130 million of private dollars in a plant that is now ready to produce cellulosic ethanol. And our scientists believe that this product, once we go through this scale-up pilot plan to full-scale commercialization phase will be able to compete head to head with gasoline, particularly as we know when the price of oil is not headed in the long run down but up. So we think we will be competitive, and we don't think we will have to be back here year after year after year when you have all been replaced by others with the same story. I think we will have a success story to tell.

Mr. RIBBLE. Thank you very much and thanks for being here.

Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman.

I thank the members of the first panel. Thank you for bringing your experience and your testimony, and if there is—we would ask if any of the Members have further questions, and we forward them in your direction, we expect a prompt response back, that would be greatly appreciated. So thank you.

At this time, I would like to call forward the witnesses for the second panel. Welcome our second panel witnesses. We have Mr. John Burke III, a Virginia tree farmer and the Chairman of the Board of Trustees of the American Forest Foundation from Woodford, Virginia; Mr. C. Randy Dye, State Forester of West Virginia, and he is President of the National Association of State Foresters out of Charleston, West Virginia; Mr. Charles A. Holmes, Chairman, Forest Resource Policy Group, the National Association of Conservation Districts in Demopolis, Alabama; Mr. Richard Schwab, procurement manager of M.A. Rigoni, Incorporated, on behalf of the American Loggers Council and Southeastern Wood Producers Association from Perry, Florida; and Mr. Michael T. Goergen, Jr., Executive Vice President and CEO of the Society of American Foresters in Bethesda, Maryland.

It looks like our second panel is all seated, so I now recognize Mr. Burke, if you would please begin with your 5 minutes of testimony.

STATEMENT OF JOHN W. BURKE III, CHAIRMAN, BOARD OF TRUSTEES, AMERICAN FOREST FOUNDATION; TREE FARMER, WOODFORD, VA

Mr. BURKE. Good afternoon. Thank you for allowing me to appear before you this afternoon. I extend that thank you to Chairman Thompson and to Ranking Member Holden, as well as the other Members of the Subcommittee.

A bit of an introduction. We manage a family forest in central Virginia. I also have the pleasure of working with the American Forest Foundation, a nonprofit organization whose mission is, among others, to encourage healthy forests. We speak for ten million landowners, whether those are family forest or private landowners.

Allow me to set the stage a bit for my testimony. The property that I manage for our family has been in our family for six generations. We grow both pine and hardwood, and from those trees, we produce paper products or paper products are produced, pallets, hardwood lumber, dimensional lumber, cabinets, flooring, fuel wood, and other uses.

In addition to these very important products, which are important to the economy of our state and produce jobs, we also pride ourselves on the water quality because the forest is really the watershed for our water. We also pride ourselves on the wildlife. Forests are nothing more than habitat for many of the species that we cherish.

What I would like to do is to refer you to my written testimony. I will try to truncate my oral testimony so that we end on time, and I am going to focus my comments in two particular areas. The first area is to thank and to encourage this Committee and to recognize the importance of the farm bill in strengthening conservation programs. The second area of testimony is to speak a bit about the need to focus or refocus the USDA's Biobased Markets Program to better recognize certain products that are not properly recognized now, we believe.

There are a number of stories in my written testimony about landowners who work hard on their property and who benefit from the forest conservation programs. Since I am before you today, I will share with you some of the things that we have done on our farm. Through programs, such as WHIP, EQIP, CRP, and CSP, we have been able to do things which would not in and of themselves have been financially viable without the assistance of these programs. We have improved wildlife habitat, water quality, and reduced the risk of fire through certain techniques. We have created jobs for the local loggers and have improved the health of the forest.

We realize that this Committee and Congress as a whole faces a significant budget issue, and my request to you would be with that recognition if cutting has to occur that forestry and conservation programs not be cut disproportionately.

My second area of focus in my oral testimony—and, by the way, I will refer you to the written testimony for additional details on the first point as well as the second point—is that the USDA's Biobased Markets Program is misfocused or in interpretation it does not fully support products that come from our farm with respect to labeling and Federal purchasing, despite the fact that the legislation refers to forestry materials. We are pleased that Chairman Thompson and Congressman Schrader are considering this inequity and are considering a bill, which probably will be entitled the Forest Products Fairness Act, to better square what is going on with what should be going on, and in particular this is a program that could be changed without incurring any additional cost. It would stimulate and open and level the markets for biobased products, particularly with respect to traditional forest products, and it could be done with little or no cost, which seems like a win-win all around.

In conclusion, we appreciate the work of this Committee, both past and future, and hope that you will continue these forest conservation programs to enable landowners like myself to continue to be good stewards of our land. Thank you, and I look forward to your questions.

[The prepared statement of Mr. Burke follows:]

PREPARED STATEMENT OF JOHN W. BURKE III, CHAIRMAN, BOARD OF TRUSTEES, AMERICAN FOREST FOUNDATION; TREE FARMER, WOODFORD, VA

Families and individuals steward more of America's forests than the Federal Government or corporations, owning 35 percent of our nation's forests. Our forests provide clean air, clean water, recreation, renewable resources that build and power our homes and communities, and good-paying rural jobs. Our families invest their own time, resources, and energy to keep forests healthy and ensure our children and grandchildren have the same opportunities.

My family owns farmland and forests in central Virginia that have been in the family for six generations. Our forestland is certified by the American Tree Farm System®, a sustainable forest certification system and outreach and education program of the American Forest Foundation. I manage the farm and forest for my family, where we grow both pine and hardwood trees for paper products, dimensional lumber, pallets, flooring, cabinets, molding, veneer, fuel, and other uses. We pride ourselves in the wildlife habitat we create, and we keep our forests healthy so the rivers and streams that run through them are clean. Our property borders the Mattaponi River, which eventually combines with a few other rivers to flow into the Chesapeake Bay.

But sometimes, events outside our control overtake us and family forest owners need help, both technically as well as financially—help which can be provided by the conservation, forestry, and energy programs in the farm bill.

America's family-owned forests, are facing a "perfect storm:" ongoing and increasing threats of wildfires, invasive species and insects and diseases, pressures from development, significant declines in markets for timber products, and an impending demographic shift with over 170 million acres of America's forests changing hands in the next 3 decades. More than 170 million acres are owned by people 55 years or older.

While some traditional American agriculture producers have seen record prices for crops like corn, America's forestry producers—family forest owners and Tree Farmers—are facing record low prices for their timber and a housing market that is the worst it's been since the Great Depression. This means, not only is it harder for families like mine to keep our forests as forests—even just paying the taxes is difficult. It also means the jobs in rural America that rely on family forests and the forest products industry are suffering. The forest industry has lost over 322,000 jobs since 2005. Since families and private landowners supply about 90 percent of the timber used in forest products manufacturing in the U.S., what happens to private landowners will have an incredible impact on the forest industry.

To protect the many public benefits that forests provide and to maintain strong rural communities, we need to ensure that family forest owners have the tools, technical information, and policy support to keep their forests as forests for current and future generations. This is why the American Forest Foundation leads the Forests in the Farm Bill Coalition, a diverse coalition of over 60 organizations dedicated to protecting forest owner and forest conservation interests in the farm bill. Our farm bill-related recommendations contained here largely reflect the recommendations of the Coalition.

The American Forest Foundation is a nonprofit conservation organization that works on the ground through a variety of programs including the American Tree Farm System, representing 89,000 certified Tree Farmers across the country who sustainably manage more than 27 million acres. Our mission is to help these families be good stewards and keep their forests healthy and intact for future generations.

Because we know that conserving our forests also means preparing the next generation to manage and care for them, AFF is also home to the largest environmental and natural resource education program, Project Learning Tree® (PLT). Our network of coordinators in all 50 states helps train more than 30,000 teachers each year in peer-reviewed curricula, correlated to state standards. Since its inception, PLT has reached 75 million students, helping them learn "how to think, not what to think," about complex environmental and natural resources issues.

As you know, the 2008 Farm Bill included significant improvements for forest owners, supporting more forest conservation and good forest management across the country. Farm bill's conservation, forestry, and energy programs give forest owners support to face the growing threats, to keep out forests healthy, and to keep forests as forests. In the 2012 Farm Bill, we hope to build on the success of the 2008 Farm Bill and make further improvements.

All this being said, we understand the current fiscal constraints this Congress is facing. We believe the budget cuts that this Committee worked to identify in the build up to the Super Committee process, while not without impact, represent a reasonable approach to address the current financial situation. We hope this Committee will work hard to ensure that the $23 billion in cuts agreed to last fall remains intact. We know this Committee is facing pressure to make further cuts beyond this and we urge that if the Committee does make further reductions, conservation and forestry programs are not cut disproportionately to other programs.

With the challenges and threats facing private forests, the 2012 Farm Bill should include a focus on enabling forest conservation and good forest management on private forests and surrounding rural landscapes. The 2012 Farm Bill should also support the creation and maintenance of forest-dependant rural jobs and strong rural economies in forest communities. This can be achieved by focusing on five key areas that will better enable forest conservation and management on private forests:

- Improving Conservation Programs for forests;
- Strengthening forestry outreach, education, research, and inventory programs;
- Combating forest-related invasive species;
- Improving forest market opportunities; and
- Educating the next generation.

Improving Conservation Programs for Forests

Farm Bill Conservation Programs, especially EQIP, WHIP, and CSP, offer a variety of tools for private forest owners to improve their management practices as well as help keep their forests intact and economically viable. Funds spent on forestry from many of these programs have more than doubled since the last farm bill, meaning landowners like me are leveraging cost-share dollars with their own time, energy, and investment to implement conservation practices on forest land. Not only have landowners received a helping hand for practices they couldn't have otherwise afforded, but they are also gaining valuable on-the-ground expertise that make them better stewards in the long-run.

Tim and Sue Gossman have owned a 100 acre Tree Farm in Minnesota for over 25 years. The Gossmans enrolled in farm bill programs to improve their highly erodible land and do their part to improve water quality in the Mississippi River watershed. Without farm bill program assistance, the Gossmans wouldn't have been able to complete these practices.

Tim says, "these farm bill programs provide a financial incentive to conserve the land through practices like erosion control dams. It's not enough to cover the cost of all the work that needs to be done. We do the rest because we truly care about the land."

Another example that highlights the economic benefits of the conservation programs is the story of Andy Abello and Amanda Russell in Maine, who with WHIP funding were able to build access to a track of their forestland that they previously could not access. In the process they made a number of wildlife habitat improvements. Now that they can access this tract, they can manage it keep it healthy as well as begin to shape it into an economically viable tract that will eventually—maybe 30–40 years from now—support rural jobs, like loggers, foresters, and furniture makers. This is a perfect example of how farm bill programs can help support economically viable improvements while also aiding wildlife habitat.

In addition to these families across the country, my family has also participated in farm bill conservation programs which have helped create healthier forests, enhanced wildlife habitat, improved water quality, and improved the economic viability of the land for future generations.

Through the Conservation Reserve Program (CRP), the Wildlife Habitat Incentive Program (WHIP), and the Environmental Quality Incentives Program (EQIP) we have been able to improve the quality and health of our woodlands and waterways and create essential habitat for game species. We've restored logging decks and skid trails as food plots and game corridors; sustainably reforested tracts with site preparation, re-planting, and practices to reduce invasive and unwanted competition for the seedlings; thinned hardwood stands and released crop trees to create healthier habitat and a more viable stand for future generations; and established filter strips along our streams to protect the water quality from nutrients from our farmland. Through CRP, we are approximately 20 years into a 30 year warm season grass planting, which creates incredible wildlife habitat and also protects water quality.

In addition to these improvements, we've also undertaken an experiment on our farm, planting bald cypress trees in an area that is the species northern most range. We are trying to determine whether we can bring the species back, restoring it to its historic range. This of course is a very long range experiment, since bald cypress have at least a 500 year life cycle.

Recently, we also decided to enroll in the Conservation Stewardship Program (CSP). We already do a lot for conservation and this Program rewards us for our good practices that we've already been doing and encourages us to do better. With some incentives and encouragement from CSP, we are doing a series of thinnings to improve forest health; improving hardwood stands by releasing crop trees; burning the understory of our pines for wildlife; leaving snag trees, dens, and piles for habitat—which reduces the income from a timber sale; protecting streamside management zones and doing other water quality improvements; managing our roads and logging decks to promptly stabilize them after a harvest and create wildlife corridors; and developing a fire protection plan for our forest—something we've never had but are now investing in—which will help my family and our neighbors, including the neighboring state wildlife refuge. We also are encouraged to do our herbicide spraying using GPS technology to ensure spraying precision. Many of these are practices we are paying for because CSP encourages it.

Now many ask the question, if you're generating income from your land, why do we need an incentive payment for these practices? Well the reason is this: for my family, we are managing our forest for future generations, just like my ancestors did. My sisters and I will not likely see the return on investment for these practices in our lifetime and just like farmers, we are running a business. We could not economically justify many of these practices we are doing with these programs—some of which will improve the economic viability of our forest for the next generation and some of which will improve public benefits like wildlife habitat and water quality—if it weren't for the cost-share assistance. On top of this, as an added benefit for our local community and economy—we put foresters and loggers to work when we implement these practices.

It is because of all this great work that is going on in the mosaic of family forests across the country, we urge the Subcommittee to maintain forest owner access to important cost-share programs like EQIP and WHIP as well as remove the cap on forest enrollment in the Conservation Stewardship Program, so forest owners have full access to that program.

We also urge the Committee to strengthen incentives for mid-contract management on forested CRP lands, to ensure that landowners can continue to steward these lands and create the wildlife habitat and healthy forests that are so critical.

Strengthening Forestry Outreach, Education, Research, and Inventory

Forestry outreach and education activities are essential for engaging private forest owners in conservation and management activities on their land. In contrast to traditional farming, forestry is a long-term, long-rotation endeavor, and most forest owners do forestry as their second or third job. Many don't have a management plan or have really even thought about the future of their land. And, many forest owners think leaving their forest alone is the best option—even when the science tells us that active forest management is critical to supporting all the benefits from forests—wildlife habitat, clean water and air, and timber production.

Forestry outreach and extension help engage these landowners so they know how to take care of their land, giving them the knowledge and tools to take the next steps and practice responsible management on their land. This education and outreach must be informed by solid forestry research and a comprehensive forest inventory that provide real-time information on health and condition of our forests.

Among many important programs, the Forest Stewardship Program is a priority for many of our Tree Farmers and a surefire way to work with state forestry agencies to boost technical assistance capacity for forest owners. While not directly a "farm bill" program, this Program is essential to get landowners to a place to be able to implement EQIP, WHIP, or CSP practices. In March, more than 1,200 forest landowners from 48 states, signed a letter in support of the Forest Stewardship Program, demonstrating the strong value this program is providing for owners on the ground.

Additionally, we hope this Committee will reaffirm the importance and strategic direction for the Forest Inventory and Analysis Program and reauthorize forestry extension—through the Renewable Resources Extension Act.

Combating Forest-related Invasive Species

According to the U.S. Forest Service, roughly 58 million acres of forests are at risk of increased mortality due to insects and disease. The Southern Forests Futures Report points to continuing infestations, especially of invasive species, with severe impacts on our forests.

Many of our Tree Farmers constantly worry about the long-term health of their Tree Farms. They fear they are losing tree species that will never come back on the landscape due to invasives—meaning their entire way of life is threatened. Jo Pierce, a Tree Farmer from Maine, can't help but wonder what he will pass on to his grand kids. With pests like the emerald ash borer, the hemlock wooly adelgid, and beech bark disease, Jo has no idea what his forest will look like in 20 years and whether the health of his fifth generation family forest will be ecologically sustainable in the long-term.

Maintaining the Farm Bill's Plant Pest and Disease Management and Disaster Prevention Program will help build and preserve critical plant health safeguarding initiatives.

Improving Forest Market Opportunities Recommendations

Without strong markets for both traditional and emerging forest products, forest owners have difficulty keeping their land forested and keeping it healthy. As many will tell you: "no cash, no conservation." Strong markets also provide landowners with resources to reinvest in their land. While markets are driven in large part by private sector activities, there are a number of policies and tools that Congress uses to stimulate markets.

Unfortunately, we've seen a dramatic loss of the traditional industry across the country. According to the U.S. Forest Service, since 2005, nearly 1,000 mills have closed across the country, resulting in more than 322,000 jobs lost. In that same time, we've seen a 75 percent reduction in housing starts, a key driver in forest products markets. As a result, harvesting is down by 40 percent on private lands, including family forests.

This loss of the traditional forest industry is concerning not just for forest owners but for the rural communities that rely on these jobs and industries to survive. I see the impact of this decline first-hand in my home state of Virginia. Cash flow is critical to the proper management of healthy forests. Sound management cannot occur in a vacuum and requires markets for the full range of forest products to make proper forest management economically viable. Many forest owners can't afford to be good forest stewards, and it greatly troubles them.

This loss of traditional industry also means the infrastructure is disappearing too—the foresters, loggers, and truckers that forest owners like me rely on to help with our forest management are harder to find.

To help maintain and restore some of these traditional markets and alleviate some of the financial burden so many of America's forest stewards are facing, Congress can modify the USDA Biobased Markets Program in the farm bill's energy title to better incorporate forest products as renewable, biobased products. With this change, Congress would ensure that USDA promotes the use of our traditional and new products with a labeling program and the Federal Government purchases our products—stimulating new markets and helping to mitigate the devastation with which the industry is dealing.

Under current policy, most traditional forest products are excluded from this program, despite their biobased content, because USDA has excluded so called "mature products" from the program. Even products made with wood from my forest, like veneer, pallets, or flooring products, are currently not eligible for the program. On the other hand, other products that directly compete with our American products, like bamboo paneling which is primarily imported, are considered 'biobased' by the program.

We want to thank Chairman Thompson and Representative Schrader along with a number of Members on this Subcommittee and many others in the House, for introducing the Forest Products Fairness Act, to fix this problem. With this legislation the Federal Government will purchase our products and USDA will promote our products, just as they are currently doing for our competitors. We applaud these efforts and urge this important legislation be included in the farm bill reauthorization.

In addition to traditional forest markets, the growing renewable energy market is also critical to forest landowners. The farm bill's energy title contains a number of programs that will help support the development of this market. Given that most of the opportunity for using forest biomass for energy is in the electricity and combined heat and power arena, we believe the energy title's Community Wood Energy Program and the Renewable Energy for America Program offer the most potential to create markets and use forest biomass for energy now.

Educating the Next Generation

Family forest owners know all too well the need to educate the next generation about forests. With over 60% of private forests owned by people age 55 or older, the fate of the nation's private forests will be in the hands of the next generation very soon.

Unfortunately, today's youth spend, on average, 27% of their time with electronic media and only 1% outdoors. And most Americans today cannot even pass a basic quiz about our natural resources. While there are a number of USDA supported education efforts, most of these efforts are after-school activities that are prevalent in rural communities; however, many new family forest owners are absentee landowners and city dwellers. The farm bill can strengthen existing USDA efforts to focus on engaging kids in the classroom, during school hours, in efforts to learn about our natural resources, ensuring kids are equipped to take on the management of this important resource.

Forest Roads Regulatory Issues

All of these farm bill programs are important in providing voluntary, incentive based approaches to help family forest owners conserve their land and the values and benefits for every American. Unfortunately, there is an effort underway, following a ruling in the 9th Circuit Court of Appeals, to regulate forest roads as point sources of pollution requiring permits under the Clean Water Act. Regulating forest roads as point sources will have many negative consequences on the voluntary conservation and stewardship that the nation's family forest owners practice. In fact, one recent study estimated that a permit requirement for family forest owners could add costs of as much as $750 per harvested acre, reducing returns by as much as 70 percent. With all the other threats and challenges I've mentioned already, these added costs will have the unintended consequence of making it nearly impossible for most family forest owners to continue the good management on their land.

Congress has clearly acknowledged through investments in forest conservation programs that voluntary, incentive-based approaches really do help keep our air and water clean. We also know this is the case because of a number of studies that have evaluated the effectiveness of best management practices in protecting water quality. If EPA moves forward with a rule to regulate forest roads as a point source, this will directly conflict with the current approach to protecting water quality in forests, as addressed in the farm bill.

We urge Congress to pass the Silviculture Regulatory Consistency Act, H.R. 2541/S. 1369 to ensure that we continue the strong voluntary incentive based approach to protecting water quality in forests.

To conclude, AFF recognizes that the Agriculture Committees must work hard to balance spending reductions and effective on-the-ground conservation. We simply hope that this Subcommittee will keep America's more than ten million family forest owners and 500,000 PLT educators in mind whilst writing the 2012 Farm Bill.

I thank the Subcommittee for giving me the opportunity to provide some insight on farm bill programs and appreciate your consideration of my testimony. I am more than happy to answer any questions on any of AFF's recommendations.

The CHAIRMAN. Thank you, Mr. Burke.

Mr. Dye, please go ahead and proceed when you are ready.

STATEMENT OF C. RANDY DYE, FORESTER, WEST VIRGINIA DIVISION OF FORESTRY; PRESIDENT, NATIONAL ASSOCIATION OF STATE FORESTERS, CHARLESTON, WV

Mr. DYE. Chairman Thompson, Members of the Subcommittee, thank you for the opportunity to appear today on behalf of the National Association of State Foresters.

As stewards of more than ⅔ of America's forest in state and private ownership, State Foresters deliver outreach, technical, and financial assistance as well as wildfire protection in partnership with the U.S. Forest Service, NRCS, and other USDA agencies.

My comments this afternoon, recommendations for the 2012 Farm Bill, are endorsed by State Foresters that support the conservation and management of the nation's forest. My written statement includes a complete set of priority recommendations from NASF.

The development of statewide forest resource assessments and strategies was an important outcome of the 2008 Farm Bill. These forest action plans provided analysis of forest conditions and trends in each state and delineated a priority role in urban forest landscape issues and areas. Common among the threats to forests identified in the forest action plan included forest pests, invasive species, fuel loads in wildfire, loss of forest to development, threats to urban and community forests.

The forest action plans also provide long-term strategies for applying state, Federal, and other resources to where they can most effectively stimulate and leverage desired action and engage multiple partners. State Foresters recommend that the 2012 Farm Bill provide the necessary financial and analytical support to implement and update the forest action plans. NASF joins the Forests in the Farm Bill Coalition in supporting recommendations that help implement the forest action plans. The coalition recommends including strong provisions for forest and conservation programs, strengthening forestry outreach, education, research, and inventory programs, combating forest-related invasive species, improving forest market opportunities.

Included in the strong provisions for forest in the conservation programs, NASF supports potential consolidation of conservation title programs providing that forest landowners' eligibility is maintained in a streamline program. We recommend the ten percent cap on the number of forest acres enrolled in CSP be removed to allow forest landowners the same access to the program enjoyed by farmers and ranchers.

Strengthening forest outreach, education, research, and inventory programs, the Forest Inventory and Analysis program managed by USDA Forest Service is the nation's only comprehensive forest inventory system for assessing the health and sustainability of the nation's forests across all ownerships. FIA provides essential data related to forest species composition, forest growth rates, and forest health data, and delivers baseline inventory estimates used in state forest action plans. NASF supports providing strategic direction for implementation of FIA programs, including completing transition to fully implementing the program in all states, engaging State Foresters and other users of FIA data to reevaluate the list of core data variables, and fostering greater cooperation between State Foresters and the research station leaders.

Combatting forest-related invasive species: The Early Plant Pest Detection and Surveillance Improvement Program of the USDA Animal and Plant Health Inspection Service is vital to rapid detection and response to destructive invasive species. NASF supports continued authorization and funding.

Improving forest market opportunities. Reauthorization of Stewardship Contracting authorities is essential to helping the Forest

Service restore healthy forest ecosystems and provide sustainability and employment opportunities in rural communities. NASF supports the reauthorization of Stewardship Contracting authorities, which is currently set to expire in 2013. These recommendations represent conclusions and consensus viewpoints driven by forest action plans authorized, in part, by the last farm bill. Thank you for this opportunity, and I stand ready to answer any questions you may have.

[The prepared statement of Mr. Dye follows:]

PREPARED STATEMENT OF C. RANDY DYE, FORESTER, WEST VIRGINIA DIVISION OF FORESTRY; PRESIDENT, NATIONAL ASSOCIATION OF STATE FORESTERS, CHARLESTON, WV

The National Association of State Foresters (NASF) appreciates the opportunity to submit written public testimony to the House Agriculture Subcommittee on Conservation, Energy and Forestry regarding the reauthorization of the farm bill. State Foresters deliver technical and financial assistance, and forest health, water and wildfire protection for more than ⅔ of America's forests. The USDA Forest Service and Natural Resource Conservation Service provide vital support for delivering these services alongside other socioeconomic and environmental health benefits in both rural and urban areas.

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) set into motion landmark changes in the way trees and forests will be managed, conserved, used and enjoyed today and for future generations. It provided new guidance on how forestry agencies and programs identify and prioritize national, regional and state forest management goals. Specifically, each state and U.S. territory was called on to complete a Statewide Forest Resource Assessment and Strategy. These "Forest Action Plans" provide an analysis of forest conditions and trends in each state and delineate priority rural and urban forest landscape issues and areas. Further, they provide long-term plans for investing state, Federal, and other resources to where they can most effectively stimulate or leverage desired action and engage multiple partners.

State Foresters completed their Forest Action Plans in June 2010 and management activities are now underway to respond to the following trends, issues and priorities:

Forest Pests and Invasive Plants

Among the greatest threats identified in the Forest Action Plans are exotic forest pests and invasive species. The growing number of damaging pests is often a result of the introduction and spread by way of wooden shipping materials, movement of firewood and through various types of recreation. These pests have the potential to displace native trees, shrubs and other vegetation types in forests. The Forest Service estimates that hundreds of native and nonnative insects and diseases damage the nation's forests each year. In 2009, approximately 12 million acres suffered mortality from insects and diseases.[1] These losses impact the availability of clean and abundant water, wildlife habitat, clean air and other environmental services. Further, extensive areas of high insect or disease mortality can set the stage for large-scale, catastrophic wildfire.

Fuel Loads and Wildland Fire

More people in fire-prone landscapes, high fuel loads, drought and at-risk landscapes are among the factors that have led State Foresters to identify wildland fire as a significant priority issue in their Forest Action Plans. These factors have created a wildland fire situation that has become increasingly expensive, complex and, in many cases, threatens human life and property. In 2011, over 74,000 wildland fires burned more than 8.7 million acres.[2] In the wake of these larger fires, the number of structures destroyed also surpassed the annual average with over 5,200 structures, including nearly 3,500 residences.[1] Of the 66,700 communities across the country currently at risk of wildland fire, only 21 percent are prepared for wildland fire.[3]

Forest Loss and Impairments to Forested Watersheds

Working forest landscapes are a key part of the rural landscape and provide an estimated 900,000 jobs, in addition to clean water, wood products and other essential services to millions of Americans. For instance, 80 percent of renewable biomass energy comes from wood, 53 percent of all freshwater in the U.S. originates on forest land and more than $200 billion in sales of consumer products and services are provided through the nation's forests each year.[4] Working forests are necessary to help the forest products industry recover and (re)employ nearly 300,000 full-time jobs that have been lost over the past 5 years as a result of the economic downturn.[5]

Private forests make up ⅔ of all the forestland in the United States and support an average of eight jobs per 1,000 acres.[6] The ability of working forests to continue providing jobs, renewable energy, clean and abundant water and other important services is in jeopardy as private forests are lost to commercial and residential development. The Forest Service estimates that 57 million acres of private forests in the U.S. are at risk of conversion to urban development over the next 2 decades.

Urban and Community Forest Management Challenges

Urban forests provide environmental, social and economic benefits to the more than 84% of Americans who live in metropolitan areas. Forest Action Plans identified a number of benefits associated with urban forests including energy savings, improved air quality, neighborhood stability, aesthetic values, reduced noise and improved quality of life for communities across the country. At the same time, the plans reported a number of threats to urban and community forests including fire in the wildland urban interface (WUI), urbanization and development, invasive plants and insects, diseases and others.

As the House Agriculture Committee considers reauthorization of the farm bill, ***State Foresters recommend that the 2012 Farm Bill provide the necessary financial and analytical support for implementing (and updating) the Forest Action Plans.*** Further, NASF joins the Forests in the Farm Bill Coalition in supporting the following four key priorities in the 2012 Farm Bill and offer recommendations within each priority area that, if enacted, would provide the essential tools for responding to priorities identified in the Forest Action Plans:

Including Strong Provisions for Forests in Conservation Programs

Farm bill conservation programs are crucial to helping private forest landowners to address stewardship of their forests. Through voluntary partnerships and cooperative conservation efforts between USDA, State Foresters, conservation districts and private landowners, conservation title programs help to sustain the long term productivity and economic viability of forestry by helping manage private forest lands. The demand for programs such as the Conservation Stewardship Program (CSP) and the Environmental Quality Incentives Program (EQIP) outstrip available funds by two to three times. Through the appropriations process, mandatory farm bill conservation programs have been cut by over $2 billion since the last farm bill. Conservation title programs have already contributed to deficit reduction via appropriations and should not be asked to contribute more than their fair share.

NASF supports potential consolidation of conservation title programs provided that forest landowner eligibility is maintained in a streamlined program. ***We recommend the 10% cap on the number of forested acres enrolled in CSP be removed to allow forest owners the same access to the program enjoyed by farmers and ranchers.***

Strengthening Forestry Outreach, Education, Research, and Inventory Programs

The Forest Inventory and Analysis (FIA) program, managed by the USDA Forest Service, is the nation's only comprehensive forest inventory system for assessing the health and sustainability of the nation's forests across all ownerships. FIA provides essential data related to forest species composition, forest growth rates, and forest health. The program also delivers baseline inventory estimates used in state Forest Action Plans. The Program provides unbiased information that serves as the basis for monitoring trends in wildlife habitat, wildfire risk, insect and disease threats, predicting spread of invasive species and responding to priorities identified in the Forest Action Plans. ***NASF supports providing strategic direction for implementation of the FIA program including (among other things):***

- Completing transition to a fully annualized program including Interior Alaska
- Reporting information on renewable biomass supplies and carbon stocks
- Engaging State Foresters and other users of FIA data in re-evaluating the list of core data variables
- Fostering greater cooperation among the FIA program, research station leaders, and State Foresters
- Understanding and reporting on changes in land cover and use
- Implementing an annualized inventory of trees in urban settings

Combating Forest-Related Invasive Species

The Early Plant Pest Detection and Surveillance Improvement Program at the USDA Animal and Plant Health Inspection Service is vital to rapid detection and response to destructive invasive pests. ***NASF supports continued authorization and funding for the program ($50MM/yr) as authorized in the last farm bill. We also recommend direction and emphasis be given to APHIS to continue delivering the program in response to forest insect and diseases in coordination with the Forest Service.***

Improving Forest Market Opportunities

The Biobased Markets Program was authorized in the farm bill and was designed to "increase the purchase and use of biobased products." USDA has excluded most forest products in the program citing that Congress intended the program for "new" markets. The exclusion of forest products in the program has created a market disadvantage even though forestry materials are some of the most biobased products in existence. State Foresters support amending the program to clarify that forest products are allowed to participate in the program regardless of their date of entry into the marketplace.

The Stewardship Contracting authority has been successfully used throughout the U.S. to improve forest health, stimulate forest-based economies and to improve collaborative project development among diverse constituencies. NASF supports the permanent authorization of the Stewardship Contracting authority, which is currently set to expire in 2013. Permanent authorization will help to ensure that the authority is institutionalized within the Forest Service and Bureau of Land Management as one of the tools available to natural resource managers to address ongoing forest health issues. Following permanent reauthorization, NASF stands ready to work with our partners to improve the effectiveness of the authority by addressing issues such as the potential for longer term contracts.

NASF recommends reauthorizing the Cooperative National Forest Products Marketing Program given the changing markets and economic trends identified in the Forest Action Plans. The program is designed to aid small and medium-sized firms (and private forest landowners) with marketing efforts to improve the competitiveness of the U.S. forest products industry. State Foresters recommend placing emphasis on market development and assistance consistent with the Forest Action Plans.

In addition to the above recommendations related to the Coalition priorities, NASF supports the following forestry-related provisions as part of any reauthorization of the farm bill:

- ***Reauthorize the Watershed Forestry Assistance Program.*** To help states and their partners address impairments to forested watersheds, NASF recommends reauthorizing the Watershed Forestry Assistance Program with program delivery guided by priorities in the Forest Action Plans. The program provides technical and financial assistance in support of projects in urban and rural areas that used trees and forests as solutions to water quality problems.
- ***Authorize study of the role of private forestlands and their contribution to national security.*** NASF recommends that the 2012 Farm Bill authorize a USDA lead study in coordination with the Secretaries of Defense and Interior to assess needs, opportunities and recommendations for pilot projects for enhancing and rewarding the management of private forestlands that directly or indirectly contribute to the missions of military bases and installations, promote energy independence, assure the availability of large scale water supplies and other matters of consequence to critical infrastructure in the U.S.
- ***Confirm that the BMP approach is the appropriate regulatory option for forestry activities by including H.R. 2594 as part of the farm bill reauthorization.*** Under the Clean Water Act, non-point sources of runoff from forest roads and forestry activities have been successfully addressed through state-developed BMPs and related state laws, regulations and guidance for the past 35 years. In May 2011, the *NEDC* v. *Brown* decision in the 9th Circuit Court of Appeals ruled that stormwater runoff from forest roads are "point sources" and subject to National Pollutant Discharge Elimination System permitting requirements under of the Clean Water Act. This decision was delivered despite the fact that the nation's 750 million acres of forests (⅓ of the land base in the U.S.) contribute to less than five percent of river and stream miles identified as water-quality impaired. The efficacy of state-based BMP programs must be recognized to avoid unnecessary and burdensome regulations that forest landowners will be subject to and state agencies will lack the resources to admin-

ister. Congress must provide the certainty needed for long-term management of this critical national resource by both public and private owners.

- ***Eliminate duplicative permitting requirements for pesticide applications by including H.R. 872 as part of the 2012 Farm Bill.*** NASF holds concerns regarding the new NPDES permitting requirements for pesticide applications under the Clean Water Act. The Federal Insecticide, Fungicide, and Rodenticide Act has provided sufficient protection for the past 3 decades by requiring rigorous examinations of potential impacts of pesticides on water quality and environmental and human health. Maintaining the environmental integrity of a watershed often involves the use of pesticides to control invasive species, manage riparian areas and reestablishing forests.

These recommendations represent conclusions and consensus viewpoints driven by Forest Action Plans authorized in part by the last farm bill, and are offered as a source of guidance that we trust will be helpful to you in developing forest policy provisions in the next farm bill. State Foresters greatly appreciate the significant task as Congress works to reduce the Federal deficit. We know the Agriculture Committees will continue to work to ensure that cuts affecting forestry are proportionate and fair to other sectors of the economy. We greatly appreciate the opportunity from the Subcommittee to submit oral and written testimony regarding the forestry, conservation and energy provisions of the 2012 Farm Bill.

Endnotes

[1] Man, Gary. 2010. *Major Forest Insect and Disease Conditions in the United States: 2009 Update.* Last accessed on March, 7, 2012 at: *http://www.fs.fed.us/foresthealth/publications/ConditionsReport_09_final.pdf.*

[2] National Interagency Fire Center, *Historical Wildland Fire Summaries,* pg. 9. Last accessed February 1, 2012 at *http://www.predictiveservices.nifc.gov/intelligence/2011_statssumm/intro_summary.pdf.*

[3] National Association of State Foresters, *Communities at Risk Report FY 2011.* Last accessed February 1, 2012 at *http://www.stateforesters.org/files/2011-NASF-finalCAR-report-FY11.pdf.*

[4] Society of American Foresters. *The State of America's Forests.* 2007.

[5] Guldin, R.W. and W.B. Smith. *Forest Sector Reeling During Economic Downturn.* 2012. Last accessed on-line at: *http://www.nxtbook.com/nxtbooks/saf/forestrysource_201201/index.php?startid=1.*

[6] Forest2Market. *The Economic Impact of Privately-Owned Forests.* 2009.

The CHAIRMAN. Thank you, Mr. Dye.

Mr. Holmes, you are now recognized for 5 minutes.

STATEMENT OF CHARLES A. HOLMES, CHAIRMAN, FOREST RESOURCE POLICY GROUP, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, DEMOPOLIS, AL

Mr. HOLMES. Thank you, Chairman Thompson and Members of the Subcommittee.

On behalf of the National Association of Conservation Districts, our 3,000 member districts, and our 17,000 supervisors across this country, I thank you for this opportunity to be here today. I currently serve as a board member from the State of Alabama for NACD, as well as Chairman of the NACD Forest Resources Policy Group.

My wife and I own Holmestead Company, a sole proprietorship in Marion, Alabama, where we are a cow/calf and tree farm operation. My family has used a variety of conservation practices over nearly 200 years, including cross fencing, rotational grazing, padded water troughs and prescribed burning.

We received our first farm plan in 1939, and we have been a certified tree farm since 1941. We have a mix of pine and hardwoods on our property, and in 1999, we reintroduced longleaf to our property. We currently have a forest management plan and a registered forester to assist us with our forest management.

The importance of conservation cannot be stated enough. That is why NACD supports the passage of the 2012 Farm Bill. Conservation districts throughout this country have been strong participants and supporters of the forest stewardship programs, which provide technical assistance via our state partners to nonindustrial private forest owners. Since the program's creation, it has produced over 270,000 resource management plans for more than 31 million acres of private forest land.

Developing a sound resource management and conservation plan is the principal tenet to NACD. NACD is one of the four partners of the Joint Forestry Team, including the Forest Service, NRCS, and my fellow panelist, the National Association of State Foresters. The forest management plan template that team has helped develop serves as a primary guidance to NRCS forestry technical service providers.

I served as Chairman of the Joint Forestry Team in 2010 and saw firsthand the value that the team provided to not just the stewardship program but to the forest industry as a whole.

On my own land in the southeastern United States, I have seen direct benefit of the forest stewardship program. My work with the longleaf pine restoration has been in part a product of the stewardship program. To date, I have restored more than 700 acres of longleaf pine in an effort to restore this native tree to our forests.

Second, the Forest Legacy Program has been an important part of conservation district work by allowing landowners to help protect environmentally important forest areas from expansion and by engaging with the locally led process to develop conservation plans. While the Senate 2012 Farm Bill framework now includes a program cap of $200 million annually, I do not believe this cap will be a negative impact on being able to successfully carry out responsible conservation.

Insects continue to wreak havoc on our forests. Pine beetles have been particularly devastating in the forests throughout the western United States. Insect infestation and disease have a direct impact on our members and, furthermore, puts their livelihood at danger due to the loss of timber and the increased risk of wildfire. Conservation districts feel that more needs to be done to address this mounting problem, and the farm bill framework we have seen is a step in the right direction.

In conclusion, these farm bill programs show a track record of success, and every dollar spent has seen a return. The forest title is critical in ensuring the health and sustainability of our forests for generations to come. I am happy to answer any questions you or the Subcommittee may have. Thank you, sir.

[The prepared statement of Mr. Holmes follows:]

PREPARED STATEMENT OF CHARLES A. HOLMES, CHAIRMAN, FOREST RESOURCE POLICY GROUP, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, DEMOPOLIS, AL

Good morning, Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee. On behalf of the National Association of Conservation Districts and our 3,000 member districts and 17,000 supervisors across the country, I thank you for the opportunity to be here today.

I currently serve as the Board Member from the State of Alabama for NACD as well as the Chair of the Forest Resource Policy Group, a subcommittee of NACD's

Natural Resources Policy Committee. My wife and I own Holmestead Company, a sole proprietorship in Marian, Alabama, where we are a cow/calf and tree farm operation. My family has used a variety of conservation practices over the nearly 200 years on our land, including cross fencing, rotational grazing, padded water troughs, and prescribed burns. We received our first farm plan in 1939 and have been a certified tree farm since 1941. We have a mix of pine and hardwoods on our property and in 1999 we reintroduced longleaf onto our property. We currently have a forest management plan and a Registered Forester to assist with forest management.

The importance of conservation cannot be stated enough. Conservation is a common sense, long-term solution with a high return on investment. The desire to put conservation practices on the ground is why NACD supports the framework of the 2012 Farm Bill designed by the Senate and specifically the forestry title. The forestry title helps provide resources to landowners who are looking to protect and conserve wooded and forest land on their property. Conservation Districts and private landowners have been directly involved with many of the programs within the forestry title, such as the Forest Stewardship Program and the Forest Legacy Program. Also, many Districts are working on insect infestation and the negative impacts that critical issue is having on landowners.

For starters, Conservation Districts throughout the country have been strong participants and supporters of the Forest Stewardship Program. The Stewardship Program provides technical assistance, via our state partners, to nonindustrial private forest owners to help with long term forest management. Since the program's creation, it has produced over 270,000 resource management plans for more than 31 million acres of private forest land. Developing sound resource management plans and conservation plans is one of the principle tenants of NACD.

NACD is one of four partners, along with the National Association of State Foresters, which I have the pleasure of sharing the panel with today, as well as the Forest Service and the Natural Resources Conservation Service, that make up the Joint Forestry Team. The Team provided input in the common forest management plan template to be used by the Forest Service, NRCS and partner organizations. The template the Team helped develop serves as the primary guidance to NRCS forestry technical service providers. I served as the chair of the Joint Forestry Team in 2010 and saw firsthand the benefit and resources that the Team can bring to the table to benefit not just the Stewardship Program, but the forest industry as a whole.

On my own land in Alabama, I have seen the direct benefit of the Forest Stewardship Program. My work with longleaf pine restoration has been, in part, a product of the Stewardship Program. To date I have restored more than 700 acres of longleaf pine in an effort to restore native forests to the southeastern United States.

Second, the Forest Legacy Program has been an important part of Conservation Districts work since its creation. The Legacy Program has allowed landowners to help protect environmentally important forest areas from expansion. The Program works with local and state entities to develop conservation plans to be carried out. NACD focuses on developing and sustaining cooperative working relationships between Federal, state, and local agencies to achieve conservation through a locally led process. The Legacy Program continues to work to make that strategy a reality. While the 2012 Farm Bill framework now includes a program cap of $200 million annually, I do not believe the cap will have a negative impact on being able to successfully carry out responsible conservation.

Insects continue to wreak havoc on our forests. Pine beetle has been particularly devastating to forests throughout the western United States. Insect infestation and disease has a direct impact on our members and furthermore puts their livelihood in danger due to a loss of timber and an increased risk of wildfire. Conservation Districts feel that more needs to be done to address this mounting problem, and the framework we have seen is a step in the right direction.

In conclusion, these farm bill programs show a track record of success, and every dollar spent has seen a return. Because of the 2008 Farm Bill, we are better prepared to meet future resource needs, and we must continue to fund these programs in the 2012 Farm Bill. The forestry title is critical in ensuring the health and sustainability of our forests for generations to come.

Chairman Thompson, Ranking Member Holden, thank you again for the opportunity to testify this morning. I am happy to answer any questions you and the Subcommittee may have.

The CHAIRMAN. Thank you, Mr. Holmes.

Now I yield to the gentleman from Florida, Mr. Southerland, for the purpose of an introduction.

Mr. SOUTHERLAND. Thank you, Mr. Chairman.

I would like to thank you for the opportunity to hold this hearing to review forestry and the energy programs within the 2012 Farm Bill.

As many people may not be aware, my home State of Florida's highest valued agriculture product is trees. Over $16 billion is infused into Florida's economy from the manufacturing and distribution of forest products each year. Florida's products industry and forestry contributes and supports many communities in our Congressional district and currently over 133,000 employees of Florida's forest industry. It just provides an enormous, enormous economic bedrock to our ag community.

The Apalachicola National Forest is the largest U.S. National forest in the State of Florida, and it resides in my Congressional district.

I am proud today to welcome a witness from our district. It is an honor to welcome Richard Schwab of Perry, Florida, in my Congressional district, a third generation logger with over 22 years of experience in the forestry industry. He is representing Southeastern Wood Producers Association, including over 500 businesses in Florida and south Georgia, as well as the American Loggers Council.

I commend Mr. Schwab for his commitment to strengthening the future of forestry for his family and for our community. I yield back.

The CHAIRMAN. Thank you.

Mr. Schwab, go ahead and proceed with your 5 minutes.

Mr. SCHWAB. Thank you, Chairman Thompson, and Congressman Southerland, thank you very much for the introduction and I appreciate the opportunity to be here.

The CHAIRMAN. Mr. Schwab, if you could just give me a second here. I apologize, I kind of missed.

I do just want to do a housekeeping thing. I introduce Mr. Costa for the purpose of a unanimous consent request.

Mr. COSTA. Thank you very much, Mr. Chairman, for your courtesy and thank the witnesses for your testimony on an issue that is important for our Subcommittee to deal with.

Unfortunately, I am going to have to go, but I would like to have unanimous consent to submit testimony statement of Land Trust Alliance from the Iowa Natural Heritage Foundation, the Pacific Trust, the Forest Trust, the Society for the Protection of New Hampshire Forests, the Vermont Land Trust before the House Subcommittee on Energy and Conservation on giving states more conservation options for implementing the USDA Forest Legacy Program, and I have some questions also that I would like to submit for the record and have unanimous consent on that and thank my colleagues for the courtesy and would like to submit that for the record.

[The document referred to is located on p. 2455.]

The CHAIRMAN. Without objection. Thank you.

Mr. COSTA. Thank you very much. We need to work together for all of the right reasons. Thank you so much.

The CHAIRMAN. Thanks, Mr. Costa.

I apologize, Mr. Schwab, so go ahead and start over with your 5 minutes of testimony.

STATEMENT OF RICHARD W. SCHWAB, PROCUREMENT MANAGER, M.A. RIGONI, INC., PERRY, FL; ON BEHALF OF AMERICAN LOGGERS COUNCIL AND SOUTHEASTERN WOOD PRODUCERS ASSOCIATION

Mr. SCHWAB. Thank you, Chairman Thompson, I appreciate that.

I am Richard Schwab, I am a third generation logger who has worked in the forest industry for the past 22 years. I have been educated and trained by the guidelines of Florida's Best Management Practices, and I am a proud Florida master logger.

I am here today representing my family's small business, M.A. Rigoni, Incorporated. We are a timber harvesting company in Perry, Florida, and we have been practicing sustainable forestry for 52 years. I am also representing Southeastern Wood Producers Association, which represents 500 businesses in Florida and Georgia, as well as the American Loggers Council, a national organization representing professional timber harvesters in 30 states.

Our first concern is directed toward the Forest Inventory and Analysis program as well. The FIA program is the best resource that we have available to measure outcomes and plan for the future of forests. The data is also being used to create jobs today. I personally work with other companies to help develop their new markets in our region of the country. These new markets are established and located in part based on the available FIA data. We would ask you to reaffirm the U.S. Forest Service Forest Inventory and Analysis program to enhance the program's efficiency and effectiveness.

Next we would like to talk about the Stewardship Contracting program. It offers forest managers the use of alternative contracting methods on Federal forest land. Stewardship contracts are used for treatments that promote healthy forests and reduce fire hazards while expanding business and job opportunities. My family's small business has worked on two stewardship sales in Florida since they were first authorized. It was great to see revenues from the timber sale used on two different National Forests in Florida at the same time. Fire lines, roads, and wildlife habitats were either improved or created. We urge Congress to permanently reauthorize the Stewardship Contracting authority in the 2012 Farm Bill.

Next we would ask you to reauthorize the National Institute of Food and Agriculture's Renewable Resources Extension Act, maintaining the current funding levels. My company has personally worked with the University of Florida's IFAS extension by harvesting new types of biomass and other timber crops on their projects. I have personally seen these crops and am very excited about the future growth of different forest crops. Without extension, I don't know if this research would happen to date.

The other item found in the current farm bill is Section 8401, which is a provision for qualifying timber contract options. Since the passage of the 2008 Farm Bill, it would be safe to say that our sector of the economy is in a state of economic depression. Federal timber purchases that are contracted for Federal timber sales during this time are left holding contracts that are now priced too high for them to be able to harvest without incurring substantial financial losses. I personally know many of these small family-owned businesses and know that they contribute greatly to the communities where unemployment rates are still hovering between 15 and 20 percent. These small family-owned businesses need additional time on these contracts as we continue to wait for our markets to recover. Please extend 8401 for timber sales that were awarded during the period beginning January 1st of 2008 and ending on December 31, 2010.

There are also some areas in the energy title of the 2008 Farm Bill that have the attention of the timber harvesting community, the first being the definition of *renewable biomass* found there. We would like to see the current definition, as written, maintained in the 2012 Farm Bill. We need as broad a based definition for renewable biomass in any energy policy. This is very important to my business because ⅔ of our production is now based on producing in-woods chips for renewable energy production.

We also don't favor any program that would allow for the artificial manipulation of existing markets. The Biomass Crop Assistance Program, BCAP, is a prime example of a well-intended Federal program gone awry. Our company personally took part in the BCAP program and experienced nothing but major market disruptions and extra paperwork. While existing wood-consuming facilities lowered delivered prices to cut their operating costs, there was no new facilities or markets established in our area of operation as a direct result of the BCAP program. The BCAP program might have worked well for the agriculture sector, but it was a disaster for our business and other businesses in the timber harvesting community.

The last program that I would like to address is the Biobased Markets Program. Under the current law, forest products have received an unfavorable position in the program. We would like to see language in the 2012 Farm Bill that would create parity between forest and other biobased products by inserting the language that would focus on products that apply an innovative approach to producing biobased products regardless of the date of entry into the marketplace. I am personally working with a company called American Process, which is a company that has completed construction on a pilot wood ethanol plant. It is located in Alpena, Michigan. They will be taking wastewater from an existing particle board plant and using this waste to cook and produce wood ethanol. It is a perfect example of American entrepreneurialism at its best. The company saw a need, realized what it took to solve the need, and made the investment.

Thank you for allowing me to provide testimony and comments as you formulate the forest industry titles of the 2012 Farm Bill, and I will be happy to try to answer any questions that you might have.

[The prepared statement of Mr. Schwab follows:]

PREPARED STATEMENT OF RICHARD W. SCHWAB, PROCUREMENT MANAGER, M.A. RIGONI, INC., PERRY, FL; ON BEHALF OF AMERICAN LOGGERS COUNCIL; SOUTHEASTERN WOOD PRODUCERS ASSOCIATION

Chairman Thompson and distinguished Members of the Subcommittee on Conservation, Energy and Forestry, my name is Richard Schwab and I am a third generation logger who has worked in the forest industry for the past 22 years helping to manage our small family business. I have been educated and trained on how to practice the art of forestry by the guidelines of Florida's Best Management Practices and am a Florida Master Logger. I am here today representing M.A. Rigoni, Inc. We are a full service forest management business, including timber harvesting, in Perry, Florida. We have been practicing sustainable forestry for 52 years. I am also representing the Southeastern Wood Producers Association which represents 500 businesses in Florida and Georgia, as well as the American Loggers Council, a national organization representing professional timber harvesters in 30 states across the U.S. I am pleased to have the opportunity to address the areas which our sector of the industry believes are deserving of your attention during the reauthorization of the farm bill.

The first concern is directed towards the Forest Inventory and Analysis program. There is real value in the information that the FIA program provides. As we continue to be concerned over the health of our nation's forest and how to sustainably manage those forests for the greatest good for all of our nation's people, the FIA program is the best resource that we have available to measure outcomes of past forest management decisions and to make plans and adjustments for the future of those forests.

Data gathered in the FIA allows us to recognize trends in forest management practices that are impacting forest health, insect and disease patterns, fuel loads, and wildlife habitat.

The data is also being used to create jobs. Our industry is one of the primary users of the FIA data in determining where to build new infrastructure such as a biomass plant or pellet mill that could create new markets that we as timber land owners and professional timber harvesters need in order to generate income from our forests to encourage sustainable management.

My job with our small family business is Procurement "the buying of all wood that our company harvests" and New Business Development "the estimating of all service jobs" that we do as well as work with companies to help develop their new markets in our region of the country. These new markets are established and located, in part, based on available FIA data. Committee Members, I cannot stress enough of the importance to our industry to have this data and it be accurate so that those of us that want to make our products from the forest can know where the best area is to locate and create new jobs in the rural regions of the country.

We would ask that you reaffirm the importance of the U.S. Forest Service's Forest Inventory and Analysis program to the private sector and direct the Agency to enhance the program's efficiency and effectiveness to ensure the program is fully implemented in all states and to enhance the program's ability to address emerging forest data needs such as biomass and new forest products markets.

The Stewardship contracting program offers forest managers the use of alternative contracting methods on Federal forest land to achieve forest management objectives.

Stewardship contracts are used for treatments that promote healthy forests and reduce fire hazards, while expanding business and job opportunities. Stewardship contracting encourages collaboration and long-term commitments among agencies, contractors, timber dependent communities, and other interested stakeholders that are important for economic stability and to complete restoration projects.

While Stewardship Contracting does not replace traditional timber sale contracts, this program provides a critical tool for forest management, helps address the need for restoration activities in much of our National Forests, and can compliment timber sale contracting.

My family's small business has worked on two stewardship sales in Florida since they were first authorized. We were able to complete the service work along with the timber harvest in a very quick and efficient manner. It was great to see the revenues from the timber sale used on two National Forests in Florida. Fire lines, roads and wildlife habitats were either improved or created. Everyone won; the U.S. Forest Service, our business, industry, local jobs, and the public. Stewardship contracts work.

We urge Congress to permanently reauthorize the Stewardship Contracting Authority in the 2012 Farm Bill.

Next we would ask that you reauthorize the National Institute of Food and Agriculture's Renewable Resources Extension Act, maintaining the current funding authorization level. This program supports forestry extension and outreach conducted by the universities, which often serve as a gateway for engaging landowners in conservation and management of their land.

Our company has personally worked with the University of Florida's IFAS Extension by working with them to harvest new types of biomass crops. I have personally seen these crops and am very excited about future growth of different forest crops and how they respond to weather, different soil types, and how they need to be managed in order to maximize yields. Without Extension I don't know if this research would happen. Extension helps to keep our industry from stagnating and we all know that anything that is stagnated is dying.

While I am addressing education opportunities, I would like to point out that under current law, farmers and ranchers have the opportunity to bring their 16 and 17 year old children out to the farms and ranches to learn the trade under an agricultural exemption found in the labor laws. Agriculture is a generational industry, just like logging, yet because logging is classified under an industrial occupation code rather than an agricultural occupation code; we have to wait until our children reach 18 years of age before we can bring them out to the woods to begin their training. I would like the same opportunity as tree farmers for the forestry community that the farmers and ranchers have in the agricultural community to bring this next generation into the workforce. I am a third generation logger, and I would like for my son to be the fourth generation. If we wait until they are 18 or older I am afraid that we will have already passed the age of building interest in our industry and lost ground in building a strong work ethic.

The other item found in the current farm bill is Section 8401 which is a provision for qualifying timber contract options. As you are all well aware, our nation has been suffering under an economic recession for some years now, and housing starts and markets for the products which we produce, logs and other forest products, have been restrained or disappeared all together. Since the passage of the 2008 Farm Bill, things have not gotten any better for our industry; in fact it would be safe to say that they have deteriorated even further.

Our nation's loggers are in trouble, and a recent study completed by the Wood Supply Research Institute indicates that we have lost close to 40% of the logging capacity here in the United States. Almost all of our timber sale contracts are 1–3 years in length and most have been made in good faith, with an understanding that markets would be reasonably stable. The unprecedented length of a weak housing market has affected everyone in the supply chain, from the loggers to the home builders, far greater than can be remembered in the last 80 years. Federal timber purchasers that contracted for Federal timber sales during this time are left holding a contract that is now priced too high for them to be able to harvest and deliver to the existing markets without, in some cases, incurring substantial financial losses. I personally know many of these small, family-owned businesses and know that they contribute greatly to communities where unemployment is still hovering between 15 and 20 percent. These small, family-owned enterprises need additional time on these contracts as we continue to wait for our markets to recover. The United States is the world's largest consumer of forest products and as the economic recovery continues, we will see the demands for the products derived from our forests rise. We would prefer promoting job creation and economic stability here in the United States through a viable U.S. workforce rather than become increasingly dependant on foreign imports.

With no real certainty as to when we might see a recovery in our sector, we ask that you please extend Section 8401 for timber sales that were awarded during the period beginning on January 1, 2008, and ending on December 31, 2010.

There are also areas in the energy title of the 2008 Farm Bill that have the attention of the timber harvesting community, the first being the definition of renewable biomass found in the 2008 Farm Bill. We would like to see the current definition as written maintained in the 2012 Farm Bill. In order for woody biomass to be considered as a real component of a renewable energy future, we need as broad based a definition of renewable biomass in any energy policies proposed that does not artificially restrict the use of woody biomass for energy production. I encourage Members of this Committee and Congress to retain the current definition of renewable biomass as written in the 2008 Farm Bill. This is very important to my business because ⅔ of our production is now based on producing in-woods chips for renewable energy production.

We are supportive of all programs in the energy title that offer short term incentives to help create renewable biomass markets which in turn will create jobs.

I am personally working with American Process which is a company that is completing construction on a pilot wood ethanol plant. It is located in Alpena, Michigan. They will be taking waste water from an existing particle board plant and using this waste to cook and produce wood ethanol. This is a perfect example of American entrepreneurialism at its best. The company saw a need, realized what it took to solve the need, and made the investment. The process will help to address U.S. renewable energy issues, air quality issues, and create both markets and jobs for the forest products industry.

We do not favor any program that would allow for the artificial manipulation of existing markets. The Biomass Crop Assistance Program (BCAP) is a prime example of a well intended Federal program gone awry. Rather than meet the intent of Congress to stimulate new markets for woody biomass and help to recover some of the costs associated with the collection, harvest, storage and transportation of woody biomass, what we saw was up to a 50% reduction in rates for delivered wood to consuming mills and were being told that we could be made "whole" by signing on to the program.

Our company personally took part in the BCAP program and experienced nothing but major market disruptions and extra paper work. While existing wood consuming facilities lowered delivered prices to cut their operating costs, there were no new facilities or markets established in our area of operation as a direct result of the BCAP program.

The BCAP program might have worked well for the agriculture sector, but it was a disaster for our business and others in the timber harvesting industry.

The last program that I would like to address is the Biobased Markets Program. Under the current law, forest products have received an unfavorable position in the program due, in part, to the maturity of the products. We would like to see language in the 2012 Farm bill that would create parity between forest and other biobased products by inserting language that would focus on products that apply an innovative approach to growing, harvesting, procuring, processing, or manufacturing biobased products regardless of the date of entry into the marketplace.

As a final note, there is a bill currently working its way through the House and the Senate entitled the Silviculture Regulatory Consistency Act, H.R. 2541/S. 1369. The bill seeks to codify a 35 year exemption for silvicultural operations from the National Pollution Discharge Elimination System (NPDES) permitting process allowed by the EPA, following a Ninth Circuit Court decision which denied those exemptions. I can think of no other regulatory burden that would have a greater negative impact on our industry if the Ninth Circuit's decision is left to stand. The delays in obtaining those permits alone would cost the industry millions of dollars in lost production. Our industry has proven that with the use of both mandatory and voluntary Best Management Practices established by the states and approved by the EPA, that water quality issues from Silvicultural operations are negligible and that implementation of the permitting process would have no net benefit to the environment.

With the poor market conditions and loss of infrastructure that is currently impacting our industry, an attempt to further regulate our industry and add additional costs will certainly lead to forest land conversions to other higher value uses, and the sustainability of our forests and our forests operations will be in jeopardy. We urge Members of Congress to pass the Silviculture Regulatory Consistency Act.

Again, thank you for allowing me to provide testimony and comments as you formulate the energy and forestry titles of the 2012 Farm Bill, and I would be happy to try and answer any questions that you might have.

The CHAIRMAN. Thank you, Mr. Schwab.

Now I would recognize Mr. Goergen for 5 minutes of testimony, please.

STATEMENT OF MICHAEL T. GOERGEN, JR., EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, SOCIETY OF AMERICAN FORESTERS, BETHESDA, MD

Mr. GOERGEN. Thank you very much, Mr. Chairman, Members of the Committee.

My name is Michael Goergen. I am the Society of American Foresters Chief Executive Officer and Executive Vice President. I really appreciate the opportunity to be here today to talk with you about some very important programs, and really an important part of the American economic picture when we think about forests.

I am very pleased with this panel. Much of what I would like to tell you this morning actually has been said by my colleagues here today, which is outstanding, and I will try to save as much time on your busy schedules as I can.

With that said, I do want to point out that we represent more than 12,000 people across the country who have really dedicated their lives to the professional management, care, and protection of America's forests. These folks have really committed themselves to ensure that the forests of the United States are taken care of and managed in the best possible way, and some of the programs that are contained within the farm bill are very important to their ability to do their jobs.

We have heard about some of them today, and I will touch on them as well. There are also some other items I would like to discuss with you as well, including Stewardship Contracting authority and also the damaging bark beetle issue that we have, particularly in the western part of the United States.

When I think about Stewardship Contracting in particular, I really want to talk about the success of a program that really started off as a pilot project. We are going to see how things work. We are going to make sure that the tool is something that can actually be used on the ground in the Forest Service and the Bureau of Land Management can truly benefit from and actually be a benefit for the taxpayer as well. And the truth is the Stewardship Contracting authority has been very successful for both of these agencies.

We also would like to advocate for permanent reauthorization of Stewardship Contracting, and really it is a big success story. We treated over half a million acres in the United States with stewardship contracts at this point in time. We have actually awarded somewhere over 900 stewardship contracts just in the last 5 years, and we continue to increase those contracts. As many as 200 were conducted last year in 2011.

Now, with the authority expiring in 2013, we are concerned that if it is not permanently reauthorized, a lot of the momentum that the Forest Service and the Bureau of Land Management have put into Stewardship Contracting may be scaled back or not be invested the way we think it should be.

This is an important tool because it allows these agencies to act like a business. Many of you own land, you understand what happens when you have a project being done on your particular land. Someone comes in to do some forest management to reduce some fire risk on your property. Maybe there was a culvert that needed to be replaced. You get that contractor to do that work as well. This is something that can be done through Stewardship Contracting that really wasn't allowed for these Federal agencies before. They had a separate contract for that, a separate contract for another piece, and this allows them to put it all together, select good contractors, and get the work done.

When I think about the western pine beetle and particularly the mountain pine beetle, I have to tell you it is a very sad story. Since 1997, bark beetle mortality has devastated more than 41.7 million acres across all ownerships in the U.S. The Forest Service estimates that up to 100,000 dead trees that are killed by beetles alone fall to the ground every day in southern Wyoming and northern Colorado, 100,000 trees falling every day that have been damaged by these beetles. We have to do something, and we have to do something soon.

Much of the forests in the West have really created a perfect storm for problems. We have had warm winters not killing off the beetles. We have poor forest management situations in many of these places, and we need to do something about this in a critical and rapid fashion. We are encouraged by many in Congress who are calling for increased forest management actions in these affected areas, and we really support trying to do something about it and including language in the farm bill that can help expedite the Forest Service's treatment of these stands throughout the West.

I would also like to touch on SAF broad recommendations for the 2012 Farm Bill. The 2008 Farm Bill included several improvements for forestry by supporting forest conservation and agro-forestry practices throughout the country. In the 2012 Farm Bill, we are really hoping that the Committee will pay close attention to the recommendations of the Forest and the Farm Bill Coalition which we very much support.

We understand the budget pressure that you are under. This is a very difficult time to be thinking about spending money. But some of these programs are really quite critical, and so we ask you to think about programs that improve conservation programs for forest, strengthening forestry outreach, education, research, and particularly the Forest Inventory and Analysis program, which we have all touched on as one of the most fundamental building blocks of research in this country for forests, and really doing what we can to improve market opportunities for forests and really focus on this fantastic green building material that we have in the United States. Thank you very much for your time, and I look forward to your questions.

[The prepared statement of Mr. Goergen follows:]

PREPARED STATEMENT OF MICHAEL T. GOERGEN, JR., EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, SOCIETY OF AMERICAN FORESTERS, BETHESDA, MD

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Michael Goergen and I am the Executive Vice President and CEO of the Society of American Foresters (SAF). I am here today to testify on behalf of our 12,000 members.

SAF believes in responsible management and stewardship of the nation's public and private forests. Funding for several of our priority programs and tools are provided for within the Agriculture Reform, Food, and Jobs Act of 2012 (Farm Bill), and are particularly important to maintaining and improving our nation's forested landscapes. Though only a small section of the total Farm Bill, the forestry programs and funding provide the ability to sustain healthy forests and provide for future generations. We also value the conservation title and the many programs that provide forestry solutions for landowners and the environment.

We thank the Subcommittee for the opportunity to testify today and for your continued support of forestry in the U.S. There are currently 751 million acres of forests in the U.S. today; roughly the same as 100 years ago, which was shortly after the founding of SAF. While the extent of our forests is a positive result of attention given, these lands are subject to pressures from wildfires, insects, disease, invasive species, changing climates, development market access, and more. At the same time, people are increasingly relying on forests for clean water and air, recreational opportunities, hunting, fishing, forest products, scenic values, and more.

SAF understands the budget pressures that continue to dominate the decisions and funding priorities facing Congress and the nation. We believe the budget cuts this Committee identified during the Super Committee process, though not without impact, represent a reasonable approach to address the current fiscal situation, and we urge that, if further reductions are made, the conservation and forestry programs are not cut disproportionally. As we cannot focus on all the important programs before your committee today, our testimony will focus on:

- **Permanent Reauthorization of the Stewardship Contracting Authority**
- **Acceleration of Bark Beetle Mitigation Efforts**
- **SAF 2012 Farm Bill Recommendations**

Stewardship Contracting Authority

Across the country, our forests, particularly our federal forests, are unhealthy and we are concerned about the loss of management infrastructure in several regions. These forest health issues and lost infrastructure result in fewer jobs and lack of economic growth; increases in invasive species; unnatural insects and disease outbreaks; forests with far too many trees and increased fuel that result in unnatural fires that negatively impact ecosystems. These forest health issues have the potential to devastate watersheds and landscapes and lead to costly repairs to protect our water supply and other infrastructure, public safety, and treatments to restore our forested lands.

The Stewardship Contracting Authority is one of the tools utilized by the U.S. Forest Service and the Bureau of Land Management to increase economic opportunity and create jobs in rural communities, restore and maintain healthy forest ecosystems, achieve landscape-scale management goals at reduced costs, and provide for other services that benefit National Forests and all that depend upon them. First enacted as a successful pilot program in the FY 1999 Interior Appropriations Bill and then reauthorized in 2003 as part of the Omnibus Appropriations bill, the current authority will expire in 2013. We ask that Congress permanently reauthorize this important forest management contracting tool.

Unique to Stewardship Contracting is the ability to keep receipts and revenue obtained from forest management treatments to be used for management goals and treatments that would not otherwise pay for themselves. This practice is called trading goods for services, and the tool allows any receipts retained to be available without further appropriation.[1] Land management goals of a project may include, among other things:[2]

1. Road and trail maintenance or obligation to restore or maintain water quality;
2. soil productivity, habitat for wildlife and fisheries, or other resource values;
3. setting of prescribed fires to improve the composition, structure, condition, and health of stands or to improve wildlife habitat;
4. removing vegetation or other activities to promote healthy forest stands, reduce fire hazards, or achieve other land management objectives;
5. watershed restoration and maintenance;
6. restoration and maintenance of wildlife and fish habitat; and
7. control of noxious and exotic weeds and reestablishing native plant species.

To date, the authority has encouraged and allowed local, state, and Federal collaborative efforts among interested stakeholders to work toward restoring communities and forests at risk. Stewardship contracting also allows for other factors to be evaluated (*i.e.,* past performance, training, *etc.*) when selecting contractors for the stewardship project. From 2006 to 2011 approximately 900 Stewardship contracts, which treated 545,625 acres, were awarded, including 208 contracts in 2011.[3]

SAF strongly supports the reauthorization of this important tool and we ask that the House Agriculture Committee include permanent reauthorization of Steward-

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[1] U.S. Forest Service (USFS). 2009. *Basic Stewardship Contracting Concepts.* Available online at *http://www.fs.fed.us/forestmanagement/stewardship/documents/stewardship__brochure.pdf.* last accessed May 14, 2012.

[2] U.S. Forest Service (USFS). 2011. *Stewardship Contracting.* Available online at *http://www.fs.fed.us/forestmanagement/stewardship/aboutus/16usc2104note.shtml.* last accessed May 14, 2012.

[3] Pinchot Institute for Conservation. 2012. T*he Role of Communities in Stewardship Contracting: FY 2011 Programmatic Monitoring Report to the USDA Forest Service.* Available online at *http://www.fs.fed.us/forestmanagement/stewardship/reports/documents/2011/FinalFY11USFSMonEvalReport.pdf;* last accessed March 2012.

ship Contracting, without changes, in the 2012 Farm Bill. We have been and will continue to work with partnering organizations including The Nature Conservancy, the National Association of State Foresters, The National Association of Forest Service Retirees, and Sustainable Northwest to advocate for this effort. We look forward to working with the Subcommittee and staff on this important issue.

Bark Beetle

Western Bark Beetle, and more specifically, the Mountain Pine Beetle continues to be a major issue affecting the health of our forests and is a priority issue for SAF. The current Mountain Pine Beetle (known as MPB) epidemic has been labeled as the largest pine bark beetle outbreak in recorded history.[4] Since 1997, bark beetle mortality has devastated more than 41.7 million acres across all ownerships.[5] The U.S. Forest Service estimates that up to 100,000 dead trees killed by beetles alone fall to the ground every day in southern Wyoming and northern Colorado.[6]

The Mountain Pine Beetle is a native species to the forests of western North America.[7] The Mountain Pine Beetle attacks pines, particularly lodgepole, ponderosa, and limber pine. The MPB targets large, mature trees that have become stressed due to conditions such as overcrowded forest stands, limited water and nutrient availability, old age, and/or poor site conditions.[8] Much of our forests in the West have created the "perfect storm" for a beetle infestation of this magnitude, and the number of dead trees will continue to grow until the bark beetle runs out of live host trees.

SAF is supportive of the actions being taken by the U.S. Forest Service to increase restoration efforts and actions to mitigate MPB infestations, but the effort is falling short. SAF wishes to see more projects and plans to treat infested forests. We believe the U.S. Forest Service desires this outcome as well, but is hindered by budget and regulatory issues that prevent the agency from achieving more.

SAF supports increasing forest management and restoration efforts in affected areas and National Forests to address public safety and property, wildfire risk, and watershed health. We need to act now in order to address these critical issues. We are encouraged by many in Congress who are calling for increased forest management actions in affected stands. We hope you will continue to advocate for intensified treatments, and we look forward to continuing to work with both the Senate and the House of Representatives on this issue.

SAF 2012 Farm Bill Recommendations

The 2008 Farm Bill included significant improvements for forestry by supporting forest conservation and agroforestry practices and activities across the country. For the 2012 Farm Bill, we hope to build on the success of the 2008 Farm Bill, while respecting the current budget reality. With the current challenges and threats facing private forests, SAF encourages the House of Representatives' Agriculture Committee to focus on the Forests in the Farm Bill Coalition's recommendations in four key areas:

- Improving Conservation Programs for Forests
- Strengthening Forestry Outreach, Education, Research, and Inventory Programs
- Combating Forest-Related Invasive Species
- Improving Forest Market Opportunities

Improving Conservation Programs for Forests

Farm Bill conservation programs are critical to assisting private landowners improve the management of their forests, often with the help of a professional forester. Programs including the Conservation Stewardship Program (CSP), the Environmental Quality Incentives Program (EQIP), and the Wildlife Habitat Incentive Pro-

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[4] Bentz, *et. al.* 2009. *Bark Beetle Outbreaks in Western North America: Causes and Consequences.* Bark Beetle Symposium. Snowbird, Utah. last accessed May 14, 2012.

[5] U.S. Forest Service (USFS). *Western Bark Beetle Strategy for Human Safety, Recovery and Resiliency.* Available online at: *http://www.fs.usda.gov/Internet/FSE__DOCUMENTS/stelprdb5338089.pdf.* last accessed May 14, 2012.

[6] U.S. Forest Service (USFS). *Western Bark Beetle Strategy for Human Safety, Recovery and Resiliency.* Available online at: *hhttp://www.fs.usda.gov/Internet/FSE__DOCUMENTS/stelprdb5338089.pdf.* last accessed May 14, 2012.

[7] D.A. Leatherman, I. Aguayo, and T.M. Mehall. Colorado State Forest Service (CSFS). *Trees & Shrubs: Mountain Pine Beetle.* Available online at: *http://csfs.colostate.edu/pdfs/MPB.pdf.* last accessed May 14, 2012.

[8] D.A. Leatherman, I. Aguayo, and T.M. Mehall. Colorado State Forest Service (CSFS). *Trees & Shrubs: Mountain Pine Beetle.* Available online at: *http://csfs.colostate.edu/pdfs/MPB.pdf.* last accessed May 14, 2012.

gram (WHIP) provide the tools to for landowners to keep their forests as working forests while also sustaining the economic viability of the land. SAF urges the Subcommittee to maintain forest owner opportunities and access to important cost-share programs like EQIP, CSP, and WHIP. We also support the removal of the cap on forest enrollment in the Conservation Stewardship Program to allow forest owners to have full access to the program.

Strengthening Forestry Outreach, Education, Research, and Inventory Programs

Forestry and agroforestry outreach and education activities are essential for engaging forest owners in conservation and management activities on their land. These programs and activities provide the tools, knowledge, and expertise to maximize the benefits of responsible management of private forests.

The U.S. Forest Service's Forest Inventory and Analysis Program (FIA) is an important tool utilized by the agency to address emerging forest data needs such as biomass, forest carbon, forest species composition, forest health data, and baseline inventory estimates used in State Forest Resource Assessment and Strategies. FIA provides landowners with unbiased information that assists in monitoring trends that include wildfire risk, insect and disease threats, and wildlife habitat. This data also helps the entire forestry community make appropriate decisions on how to sustainably care and manage our forests. SAF supports providing strategic direction for implementation of the FIA program including:

- Completing the transition to a fully annualized program
- Reporting information on renewable biomass supplies and carbon stocks at the local, state, regional, and national level;
- Engaging users of FIA data in re-evaluating the list of core data variables with emphasis on demonstrated need;
- Fostering cooperation among the FIA program, research station leaders, State Foresters, and other users;
- Improving the timeliness and accessibility of the annualized information on the database;
- Expanding existing programs to promote sustainable forest stewardship through increased understanding by all stakeholders.

Combating Forest-Related Invasive Species

A critical threat to the health of America's private and public forests is the spread of invasive species. According to the U.S. Forest Service, roughly 58 million acres of forests are at risk of increased mortality due to insects and disease. SAF supports maintaining the Plant Pest and Disease Management and Disaster Prevention Program as the funds help build and preserve critical plant health safeguarding initiatives that protect forests and mitigate invasive species damage.

Improving Forest Market Opportunities

Private forests depend on markets to ensure long-term forest sustainability. A viable forest products industry is only successful if there are strong markets for both traditional and emerging forest products. Without a viable forest products industry, forest owners have difficulty keeping their land forested, and instead fall to economic pressures that can cause them to fragment their landscape. Forest owners need strong markets that will allow them to reinvest in their lands to keep to them working and healthy.

This is of great concern as it means that not only does the forestry community continue to see dramatic loss of jobs, infrastructure, and capabilities, but it also means that our public and private forests suffer from negative impacts. From 2005 to 2010 primary (forestry and logging, paper, wood manufacturing, *etc.*) and secondary (residential construction, furniture, *etc.*) employment have seen a combined reduction of 920,507 total jobs. In fact, total U.S. annual timber harvests are at their lowest levels since the 1960s. This lack of production led to the closure of more than 1,000 mills from 2005 to 2009, which decreased overall sawmilling capacity by 15 percent, and lowered production levels below 50 percent of capacity at the remaining mills.[9]

To help maintain and restore some of these traditional markets, and to improve market opportunities for private forest owners, SAF recommends that Congress modify the USDA Biobased Markets Program in the farm bill's energy title to better incorporate appropriate forest products as renewable, biobased products.

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[9] Smith, B.W., and Guldin, R.W. 2012. *Forest Sector Reeling during Economic Downturn.* THE FORESTRY SOURCE January, 2012. Available online at *http://www.nxtbook.com/nxtbooks/saf/forestrysource__201201/index.php;* last accessed March 2012.

In closing, SAF would like to address the efforts underway by some to regulate forest roads as point source pollutants under the Clean Water Act. As you are aware, the 9th Circuit Court ruled that storm water runoff from forest roads and forestry activities should be subject to National Pollutant Discharge Elimination System (NPDES) permitting requirements. In past years, forest roads were considered nonpoint source pollutants that were exempt from the NPDES requirements, and effectively addressed through state-developed BMP's and forest practice acts. This is of significant concern as a permitting process would increase costs per forest acre harvested, create a complex and arduous process, and cause unnecessary burdens on forest landowners and for agencies to administer. SAF urges Congress to pass the Silviculture Regulatory Consistency Act, H.R. 2541 and S. 1369, to ensure forest roads and forestry activities remain exempt from NPDES requirements.

On behalf of the Society of American Foresters, I thank you again for this opportunity.

The CHAIRMAN. Thank you, Mr. Goergen

And I will proceed with our questioning.

I will take the liberty of the first 5 minutes. My first question is actually for you, Mr. Goergen. I appreciate your observations. We are in difficult challenges. I think that one of the unique opportunities we have in our Subcommittee and the Agriculture Committee is the forests can be a great source of revenue, given all the public lands that have been secured and continue to be sitting, some of those, idle with just tremendous resources for this country. It could be a great return on investment, if we are promoting the proper healthy management, which includes harvesting. You talked in your remarks about the Stewardship Contracting authority. What makes the Stewardship Contracting authority unique and/or different from other contracts?

Mr. GOERGEN. Thank you very much, Mr. Chairman.

You know, it is really interesting you talk about the Forest Service in particular and the asset that they have because it really is an asset, and if you go back and read a book by a gentleman named Kaufman from the 1950s called, *The Forest Ranger,* he talks about the Forest Service being one of the very best agencies in the Federal Government. Not only in terms of the way that they were structured, the way that they were able to do management, but also the fact that they returned money to the Treasury every year. You are exactly right; this is a tremendous asset that we have on our hands.

Now Stewardship Contracting is different for the Forest Service and the Bureau of Land Management because they are able to address multiple needs under one contract. They are able to keep money locally to get that work done. They are able to actually use the sale of forest products from one part of the treatment they may be trying to accomplish on part of a particular forest stand and use some of that money to improve something somewhere else. So if the Forest Service wants to build a campground because there is a demand for recreational opportunities, they can sell a little bit of timber over here, build a recreational facility over here. If there is a water issue because a culvert has blown out, they can use some of the assets they have right there on the ground and improve that work somewhere else in the forest, and the fact of the matter is this authority can really help the agency and help the Congress in terms of trying to ensure that the assets that we have in our forests are used in the best possible way. I would really encourage permanent reauthorization for this important authority.

The CHAIRMAN. Thanks, Mr. Goergen.

Mr. Burke, you mentioned that right now USDA's Biobased Markets Program doesn't recognize products made from your forest as biobased. Can you tell us why this is the case?

Mr. BURKE. Well, the way the legislation has been incorporated with the regulations that have been drafted, there is language that requires that it be a new product with a certain date. And if you look at products, for example, that come off of my farm, an example would be hardwood that is made into pallets. There are pallets that come from overseas that are made of hemp which compete and get the labeling, and also would be what a Federal agency would have to procure over and instead of the product that is made locally on my farm.

And I think that is an unintended consequence of the legislation. And our recommendation is that the playing field be leveled so that all biobased products, whether they are traditional or new would be recognized. That would create more jobs and stimulate the economy. And that is particularly important in the forest industry at this time, because the forest industry is still struggling with one of the worst downturns since the Depression.

The CHAIRMAN. Similarly, I have concerns that the current rating system utilized by the Leadership in Energy and Environmental Design, commonly known as LEED also disadvantages forest products. Do you agree with this? Is that your observation?

Mr. BURKE. Well, I think that what we would like to see is, again, a level playing field so that procurement can be LEED or comparable or other recognized sustainable resources. So we would like to see a level playing field with respect to procurement across all of those categories.

The CHAIRMAN. I have seen data suggesting that in Pennsylvania, we have lost over 13,500 jobs in the forestry sector in the last few years. And I appreciate your mentioning that. Actually I will soon be introducing legislation to fix the Biobased Markets Program to better recognize forest products. And I am supportive of the goal that this fix will help bring back, or at least stabilize our job losses, not just in the Commonwealth of Pennsylvania but throughout the country, and I appreciate your earlier remarks. I was just checking to see if you would agree that that is a step in the right direction.

Mr. BURKE. I will be blunt. We think it is a brilliant solution because it is cost neutral, it will stimulate markets, it will create jobs, and it is a very wise and sound decision.

The CHAIRMAN. I appreciate that. I have been called a lot of things. This may be the first time my name and "brilliance" has ever been associated in the same statement though.

I will recognize for the purpose of 5 minutes of questions, Mr. Gibbs, of Ohio.

Mr. GIBBS. Thank you very much, Mr. Chairman. And thank you all for coming in today.

Mr. Dye, in your testimony, you talk about H.R. 872 it is a bill I sponsored that passed out of the U.S. House of Representatives in March a year ago, 2011, by a super bipartisan majority, and it is sitting in the United States Senate, so I know you share my frustration.

And I wanted to ask you a couple of things about that. You talk about the duplication and of going to get NPDES permits. The first question on that aspect, are you starting to see delays since this was delayed all through last year now the U.S. EPA and states have to start implementing it? And then the second part of the question, there is a report a couple weeks ago I saw that there is a concern that because of this there might be pesticides used, that in a less than full strength manner, I don't know how else to say it, that we won't get a good kill of invasive species of both plants and pests. You mentioned here in your testimony you talk about what can happen, problems with reestablishing forests and managing riparian areas. So do you want to comment on those two areas?

Mr. DYE. Yes. The use of herbicides, all pesticides are essential in certain forestry operations to establish regeneration, new forest. And we have worked with chemicals for years and find that some are just much more effective, cost effective and are environmentally safe and sound. And a duplication of regulation does not seem to make sense. I guess I answered question number two first.

What was your first question again?

Mr. GIBBS. Since the legislation hasn't passed, when U.S. EPA and the states now have to move forward, one of the things I talked about last year was the concern that there could be literally thousands, whatever, of permit applications and it just overwhelmed the regulatory—the agencies, the EPA, state and Federal level. Are we starting to see that or a backlog? What is happening in the permitting?

Mr. DYE. Quite frankly, I cannot answer that question right now, but I can find out and will report that to the Committee.

Mr. GIBBS. I am really concerned too. It is not just pesticides here in use for, in the forestry or the agriculture sector, but also in mosquito control districts, and we are going to see some very negative consequences this coming summer, mosquito season.

Another question for Mr. Dye, and I don't know if Mr. Burke might want to get into it. The Ninth District Court ruling on making forest roads point source? Can you explain a little bit how best management practices *versus* just going to get an NPDES permit to be a point source? What is the best workable solution and how big of a problem is this issue?

Mr. DYE. Sir, being from the neighboring State of Ohio, West Virginia, as you may be aware, I want to cite we have an excellent program and in that state and other states, surrounding states do also, very similar, where we work with the logging community, and ensure that BMPs are installed. BMPs are basically handling water in small quantities to prevent erosion and sedimentations of the state's waters. And all states across the nation have varying degrees of this program, but it is something that the state forestry agencies have handled for 35 years or more.

We recognize the importance of it, and we feel that this is being handled and anything further would simply be duplication, added expense.

Mr. GIBBS. Would you agree that just going, enforcing producers, farmers whatever, to go out and get an NPDES permit and they set certain levels, it doesn't really solve the problem. It would be extra burdensome regulation on them, and even if they were to doing the best management and hopefully most of them are doing best management practices, it is duplication that just adds cost and paperwork? Is that true, it wouldn't really have a significant favorable impact to get to where we want to be?

Mr. DYE. Correct. I totally agree with that.

Mr. GIBBS. Mr. Burke.

Mr. BURKE. I would like to drop a couple of footnotes there. I would like to add a little bit to that.

I think in addition to adding cost, it could create some unintended consequences. We could discourage a recovering market with forestry. We don't need those regulations because this farm bill had the wisdom to realize that voluntary, incentive-based programs are really more effective than the hammer of legislation. I think that the bill, the Silviculture Regulatory Consistency Act, that proposed piece of legislation would be a good solution to remove the uncertainty that now hangs over the head of forest landowners.

I don't think the regulation is needed. I think clarification of the statute would be appropriate, and I fear that if it were enforced as some think it might be under the Ninth Circuit, we could clearly have an unintended consequence of discouraging forestry.

Mr. GIBBS. Indulge me.

The CHAIRMAN. Without objection.

Mr. GIBBS. Thank you. It is hard for me to believe that this issue is an issue that really is causing a big major problem, sediment contamination. Obviously, on forest roads when there is maybe timbering going on in that area, there would be more traffic, but lots of times those are dormant and the vegetation grows up. Could you just quickly let me know if it is a big deal? How big of a deal is this? Should EPA be focused on other areas?

Mr. BURKE. I candidly think they should focus their attention elsewhere because a properly-managed forest road is a nonevent with respect to water quality. Under Virginia's BMPs, that is going to manage the water quality in that voluntary way. On our farm, for example, we reestablish promptly any road that is disturbed. A road by definition is to avoid random compaction, so you put your roads in a smart place, you design them properly with water bars, you use those roads when you need to, and then you promptly reestablish a cover on them. And if you do those things, and that is what most good stewards do, and that is what the BMPs encourage, we have a nonissue as it relates to a point source and EPA.

Mr. GIBBS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I recognize the gentleman from Colorado, Mr. Tipton, 5 minutes for questioning.

Mr. TIPTON. Thank you, Mr. Chairman. You are running a brilliant Subcommittee hearing here. I wanted it to happen twice. I would like to thank our panel for taking time to be able to be here.

Mr. Goergen, you spoke to something that speaks directly to my heart out in the western United States in my third Congressional district in Colorado western slope, better than 70 percent of the land is either Federal, state or tribal lands. A lot of the forests, 100,000 trees per day that you mentioned are falling in our forests right now are creating an incredible challenge in terms of maintaining healthy forests, in terms of the fire threat. And could you maybe speak to because we are talking, Mr. Burke was noting a bit about water quality issues; if these forests burn, what type of impact is that going to have on water quality?

Mr. GOERGEN. Absolutely devastating, sir. If you look at what happened after some of the big fires in Colorado to the Denver watershed in particular, the costs are astronomical. And those are individuals paying a great deal more in the City of Denver because they are relying on water from other parts of the state to be clean and healthy. And the fact of the matter is, when these trees burn and the soil is scorched, it doesn't hold the water, it doesn't filter the water, and we have tremendous impacts on our reservoirs because they fill up with sediment.

Mr. TIPTON. Would it be accurate to be able to say that if we do not follow some of the prescriptions that Mr. Burke and others are speaking to now to manage healthy forests, we can literally sterilize the soil with a high fire going through these areas, and when we are talking about protecting our water, protecting our watersheds in the West where we have maybe 12, 14 inches of rainfall that comes in a total year, it is in the best interests of this country, the Environmental Protection Agency, our states and our nation to actively manage these forests?

Mr. GOERGEN. There is no question, sir. Absolutely. That is absolutely what we should be doing today. And I would actually ask the Congress and this Committee to even take a look at, could we clarify parts of the Healthy Forest Restoration Act to ensure that the Forest Service can get this work done on an emergency basis as well.

Mr. TIPTON. So would you agree we just held a Subcommittee hearing that I chaired out in Colorado trying to get an actual answer to the point. Is the bark beetle an imminent threat?

Mr. GOERGEN. There is no question.

Mr. TIPTON. No question it is an imminent threat, so in the interests of this country the Forest Service, the BLM should be allowing the flexibility to be able to address this properly?

Mr. GOERGEN. Absolutely, and they have the skills to do it. The problem is the process.

Mr. TIPTON. And the process. And that leads me back to Mr. Burke when you are talking about some of the regulatory compliance, and you will find this shocking but across the board, we continue to hear about over-regulation, duplicative regulation, which is inhibiting our ability to be able to make commonsense decisions, increasing costs.

When we are talking about the forests, don't they actually filter water for us? Isn't that one of the clean sources coming out.

Mr. BURKE. That is correct. If you think again of the forest as our watershed, it is accomplishing several things. It is allowing the water to proceed to streams and rivers gently and carefully but also filters it. On our farm, for example, under CRP, we have filter strips that are grassy areas that filter the nutrients before they reach the streams. On our forested areas in compliance with many of the farm bill programs, again, not regulatory compliance but incentive-based voluntary compliance, we are leaving forested buffers under the BMPs which protect the water quality.

And I will second your concern about fire, even though we speak for a group of private landowners, the health of the forest on Federal lands is very important to us because we are your neighbor, and if a bug outbreak gets to roaring, or if there is improper forest management on adjacent property, there can be fire risks to us as neighbors to Federal property. So forest health is important across the board, and these farm bill programs are set to do that and should continue.

Mr. TIPTON. Great, I appreciate that.

Mr. Schwab, you have some counterparts in Colorado that share your concern when it comes to some of the forest contracts. Colorado, we have one mill remaining in the State of Colorado and it is under receivership. We have 100,000 trees falling every day creating a fire threat into our areas, biomass plants are ready to go if they could just get the approval out of the Forest Service to move forward.

Do you have a recommendation in regards to how to be able to structure those contracts so that you can make your business work so we can make healthy forests and we can be working with some common sense in terms of forest management?

Mr. SCHWAB. I personally have worked with the Stewardship Contracting system, and it works really, really well. So the easier you can make it to where your contractors are willing to place a bid on it as close to your markets and other things, the better off you are all the way going to be.

But to simplify the contracting process, to make it work for everybody would be super, but really the biggest hurdle that we experience as loggers trying to bid on Federal contracts is getting the contract the timber sale approved to begin with, to get it and to go through all of the environmental studies and the archeological studies and just the bureaucratic red tape that everybody has to deal with in order to put this valuable resource that this country owns on the marketplace to be able to get it to be sold is a nightmare.

And so if you could somehow increase the efficiency through the government and bureaucracy side of it, then I think we could be moving forward and Stewardship Contracting is a great way to do that because you take, in essence, two contracts and fold them into one, and you are taking the resource over here and applying it to needs over there whether it is road building or fire line creation. Even if it is a cost situation of getting beetle kills down, buffer strips around these beetle kills, you can fold that right on into stewardship.

So making it simple and giving your foresters on the ground the ability to be able to make a decision and then follow through with those decisions would be crucial in being able to solve these problems.

Mr. GOERGEN. Just to jump in very quickly, in many cases, on the Federal side it can take 18 months for them to get a project done in some of these beetle areas.

Mr. Burke has pine beetle problems in Virginia. And we were talking earlier and he was telling me the trees that I have with pine beetles were at the mill before the beetles woke up from the winter. That is what we need to be doing in our Federal lands as well.

Mr. TIPTON. I thank the gentleman. I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I now recognize the gentleman from Florida, Mr. Southerland, for questions.

Mr. SOUTHERLAND. Mr. Schwab, I am continuing on the note there from my good friend from Colorado, you had mentioned in your testimony, our nation's loggers are in trouble. In a recent study completed by the Wood Supply Research Institute indicates that we have lost close to 40 percent of logging capacity here in the United States.

I personally know many of these small, family-owned businesses and know that they contribute greatly to communities where unemployment is still hovering between 15 and 20 percent. The United States is the world's largest consumer of forest products, and we would prefer promoting job creation and economic stability here in the United States.

Could you quickly elaborate on the major challenges you face today in your industry? Because I know your family business, I know the impact you have on your community, and I know it is a sacrifice for you to be here, and I certainly appreciate your presence. So just what are maybe one of the top two things that you feel are the biggest threat to you and your livelihood?

Mr. SCHWAB. Today, it is over-regulation. We in the forest, the logging side of the forest industry have tremendous amount of capital invested in our equipment. Today, to buy a new piece of equipment we are spending anywhere from $20,000–$50,000+ per unit per piece of equipment just to comply with EPA air regulations for our new diesel engines. And what that is doing is increasing the cost of my equipment but not just that, but I am not getting any more production out of that piece of equipment because of that cost.

Uncertainty, with the Ninth Circuit Court ruling on water runoff on forest roads and calling that a point source pollution which is asinine, that is causing uncertainty in our industry where we have possibly new business development coming along or new markets being developed, they are wanting to know what is this increased regulation going to cost me? What is going to happen here? So that is uncertainty.

And then the other thing is access to resource. The Congressman from Colorado mentioned that he has beetle problems in his forest. Well there are regions of this country where 80 percent of the land base in rural America is owned or managed by the Federal Government. We do not have access to those forests today as timber harvesters, to be able to manage that resource that doesn't cost this country anything to grow. It should be putting money into the coffers.

I heard another Congressman mention, the first panel about where are we going to get the money from? How are we going to pay for these Federal programs? Gentlemen you have the money growing in the forest right now. And it is time for us as Americans to be able to go out there and harvest that resource that God put on that ground for us to harvest and enjoy, and be able to put that money back into the coffers.

Most of the men at this table right here are not standing here with their hand out asking you for money. We are wanting to put money in the Treasury. We are wanting to create jobs. So if you eliminate regulation from stifling our industry, and you eliminate bureaucracy on trying to cut your—our timber, our timber on Federal lands, I think that our industry could have a great chance of recovering in a quick way.

Mr. SOUTHERLAND. Thank you, Mr. Schwab.

Mr. Holmes, I am familiar with your neck of the woods. You have some pretty nice deer hunting up there in the Black Belt, and so my family enjoys your area. Let me ask you, being from Alabama, talk about, we have talked about the Ninth Circuit and what has occurred. It seems to me that the EPA, in many ways, produces solutions that are looking for problems. And so tell me about your area. I know you are several, a couple hundred miles north of us, but relating to that issue and even piggy-back off of what Mr. Schwab has said.

Mr. HOLMES. Yes, sir. One of the other things that I would like to address that Mr. Schwab said that I think would be beneficial to you, is in the South, we also have the pine beetle. We have the southern pine beetle in the South, and it has devastated us back in the 1980s, really devastated us.

He was talking about the cost of his equipment and getting things done. And we used to have, in Florida, we had little pulpwood trucks, and in Alabama we had those little pulpwood trucks running around with people get out of and take care of these small areas of southern pine beetle, and I am wondering what is going to happen we already missed one cycle of pine beetles in the Southeast, we are due for another big slam. And what is going to happen when you call up Mr. Schwab that has to bring $½ million worth of equipment to come in and cut 20 acres of pine beetle infestation? He is going to laugh at you.

And I am very worried about what is going to happen now because we had small bases that could go in and cut out these areas and tend to that. We don't that have that now. And it is going to be something to look at. But as Mr. Burke said, our log roads, I have 4,000 acres of timber on my farm, the whole family has about 18,000 acres of timbered land. We maintain our own roads. When we cut timber, we try not to have large timber sales. We take out a retainer up front, they pay us an amount of money to make sure that our roads are reestablished, our water bars are put back in, if there are any stream crossings that were disturbed, they are to be put back to the way that they were.

We can handle this, and being the soil and water conservation districts, we really speak a lot of being locally led, and this is locally led but it is also a volunteer movement with us having best management practices, having SMZ guidelines to go on, I see this as a nonissue.

Mr. SOUTHERLAND. Right. Many of us do as well.

Mr. GOERGEN. Very briefly to echo this point, you have all made excellent points about over-regulation in a sense.

The Chief of the Forest Service, the nation's chief forester, has said that voluntary and in some cases mandatory BMPs are doing the job. I actually have the research data to back that up and would be happy to provide the Committee with that information.*

The CHAIRMAN. Without objection. I would ask that be added to the record.

Mr. GOERGEN. I think the real issue here is the National Alliance of Forest Owners estimates that the cost could be almost $6 billion if this were a regulatory action that came down from EPA. Now we know it is not necessarily EPA's fault, the courts are overzealous, *et cetera*, but $6 billion that we could be spending on improving forest habitat for wildlife, improving it for people, improving it for water quality, there is much better use of money than on this regulation. Thank you.

Mr. SOUTHERLAND. Thank you. I yield back.

The CHAIRMAN. One final question, actually for all the panelists that would like to weigh in on. The purpose of regulation and the role, the impact of over-regulation I guess is what my question is about. We talk about healthy forests, and we talk about you have to manage a forest for it to be healthy. That means timbering, that means dealing with the fire load, that means preventing wildfires, that means managing the invasive species that have been mentioned here today. So whether it is over-regulation as related to being declared as a point source, regulation in terms of road, the Ninth Circuit ruling with roads is just over-regulation in general. We have talked about jobs, we have talked about economic impact, those type of things, I just want to focus on with my final question, a healthy forest, has to be managed to be healthy. How devastating is over-regulation to having healthy forests in this country?

Mr. SCHWAB. Mr. Chairman, it is very devastating because we have proven, this industry as a whole, nationwide, has proven that we can create our best management practices ourselves. We can police ourselves. In Florida, where I am from, we are at 99 percent compliance to the best management practices that we put in place ourselves. We don't need the EPA to come and tell us that our air quality coming out of our equipment that we are using to harvest the forest where the air is the cleanest is too dirty. We don't need the EPA or the Ninth Circuit Court coming in and telling us that our roads, that rain is a point source pollution running off of a road. It is insane.

And what it is going to cause is the economic advantage of going in here and doing the first time thinning or doing a clear-cut on a stand that needs to be clear-cut because it is beetle infested or whatever it is to regenerate new growth is not going to be economically advantageous for us as an industry to go and do this. So, the forests will continue to fall in disrepair, fire hazards will happen, and then your water quality actually will go down. So over-regulation is what is stifling what we are doing as an industry.

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*The documents referred to: (1) *Assessing the Effectiveness of Contemporary Forestry Best Management Practices (BMPs): Focus on Roads,* Special Report No. 12–01, January 2012; (2) *Compendium of Forestry Best Management Practices for Controlling Nonpoint Source Pollution in North America,* Technical Bulletin No. 966, September 2009; (3) *A Review of Waterbodies Listed as Impaired by Sivicultural Operations,* National Association of State Foresters and the Society of American Foresters, June 2000; (4) *The Effectiveness of Forestry Best Management Practices for Sediment Control in the Southeastern United States: A Literature Review,* SOUTH. J. APPL. FOR. 35(4) 2011, pp. 170–177; and (5) *Trends for Forestry Best Management Practices Implementation,* JOURNAL OF FORESTRY, September 2010, pp. 267–273, are retained in Committee file.

The CHAIRMAN. Go ahead, Mr. Holmes, please.

Mr. HOLMES. Just to follow up again on what Mr. Schwab said, about 30 years ago, I was in Perry County with an 8 year old child and we were going on a logging road, and I had a piece of ground flagged, and my son said, daddy, what are you going to do, what is going on? And I says well son, I said, we are going to clear-cut this tract of timber right here and we were having an infestation of bugs, we had lost a good many of the pine trees. A lot of them were over 100 years old from old fields that had grown back up into trees. And so he starts crying, because that is one of the places he liked to hunt, and he killed his first deer there when he was 8 years old. And I said, son, trees are just like people. And I said we all have a lifetime. And to maintain a healthy forest and to maintain the beauty and the aesthetics and the wildlife that you want to see, sometimes we have to remove some of this.

And I have been to Alaska and I have seen the beetle outbreaks there and I have been to Colorado and I have seen the outbreaks there. And we have scientific proof, research done that shows that if we can keep the understory removed out from under some of this forest and if we can keep a thinning on some of these trees that we have a healthier forest that provides abundance of wildlife, water quality, air quality and everything else.

And so I agree with Mr. Schwab. Why can't we do something about using those moneys that we, as Americans, all have to take care of the needs that needed to be taken care of and also have a healthier forest?

The CHAIRMAN. Very good. Go ahead, Mr. Burke.

Mr. BURKE. Let me just share an example of where regulation with respect to roads would be negative as opposed to a more positive approach.

If you required a road permit, the cost would be significant. It would not benefit the land directly and you will see why in a minute. It would simply be an additional cost which would make the cost on the landowners and the cost to loggers more to conduct healthy forests harvesting and thinning. Compare that to the voluntary incentive based leverage, if you will, when farm bill money is put into the hands of private landowners. The private landowner adds his or her own additional money; they add sweat equity, and then they do practices which will last for a long, long time.

Those benefits give him significant leverage effect and provide much better forest protection, they provide better water quality protection, and better fire management. So that is a much better approach than to regulate.

The CHAIRMAN. Mr. Dye, did you have comments?

Mr. DYE. Regulations are meant to protect us from something but if you look at the list of activities in the forest and what is regulated, it has gone 180° the other way. Because of regulations, we have increased forest fires, increased bug outbreaks, a worsening economy, uncertainty for those that want to invest in businesses, which leads to declining employment. So regulations to protect ourselves from—has gone 180° of its actual intent.

The CHAIRMAN. Very good. I want to thank all the members of the second panel. I want to thank you for your expertise, thank you for your experience and thank you for your endurance for joining us today. Hopefully, as you saw from the interests, and even, I would say, the passion of the Members of the Subcommittee, this Subcommittee takes its responsibility very, very seriously, and today we have had the opportunity obviously in this kind of final Subcommittee hearing on the energy and forestry titles to get some excellent input and information.

Our next step really is to write a farm bill using the information that we have here. So we will be under the leadership of Chairman Lucas. We will be starting that process. Certainly any additional resources and we look forward to the data that you have talked about, but any open invitation to continue to forward any additional information you think would be helpful in the process. I speak on behalf of all the Members of our commitment to do our due diligence in our preparation so we have the best possible farm bill for all the titles within the farm bill.

And so given that, under the rules of the Committee the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member. This hearing of the Subcommittee on Conservation, Energy, and Forestry is adjourned.

[Whereupon, at 2:35 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA; ON BEHALF OF RAND WENTWORTH, PRESIDENT, LAND TRUST ALLIANCE; MARK ACKELSON, PRESIDENT, IOWA NATURAL HERITAGE FOUNDATION; LAURIE WAYBURN, PRESIDENT, PACIFIC FOREST TRUST; JANE A. DIFLEY, PRESIDENT/FORESTER, SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS; GIL LIVINGSTON, PRESIDENT, VERMONT LAND TRUST

May 15, 2012

Dear Congressman Costa and Members of the Subcommittee,

As you prepare for the upcoming hearing on energy and forestry programs in the 2012 Farm Bill, we thank you for the opportunity to submit this testimony on behalf of working forest landowners, state agencies, and the land trusts that partner with them in ensuring the long-term sustainability of our nation's forest resources.

We speak as representatives of the Land Trust Alliance (LTA), a Washington-based national association representing more than 1,700 nonprofit land conservation organizations, and the Iowa Natural Heritage Foundation (INHF), Pacific Forest Trust (PFT), Society for the Protection of New Hampshire Forests (Forest Society), and the Vermont Land Trust (VLT), conservation organizations and policy advocates from across the country that are dedicated to the protection of private working lands. Collectively, the nation's land trusts have the privilege of working with a wide range of landowners to help them conserve their land. From small family forestlands and farms to large industrial timberlands, many of these landowners have been on their lands for generations, and for generations the economic and environmental benefits their lands provide have been central to the health, livelihoods, and well-being of rural communities.

We thank you for the opportunity to discuss an important improvement to a program that is instrumental in helping conserve these lands, the U.S. Department of Agriculture's Forest Legacy program. While Forest Legacy is one of the most important funding sources for the conservation of our nation's private forests, the minor change we discuss below would significantly increase the effectiveness, cost-savings, and flexibility of this important program. We thank you for your time and consideration on this issue, and look forward to continuing to work together as the House moves forward on the 2012 Farm Bill.

Executive Summary

From the beginning of the Forest Legacy program (FLP), nonprofit conservation organizations have served as facilitators of many Forest Legacy projects. These groups act as a transactional—and sometimes financial—bridge between private landowners and state agencies. Under current law, however, land trusts cannot directly hold the conservation easements funded through Forest Legacy. We believe giving states this additional tool will unlock the full potential of the Forest Legacy program to conserve our nation's private forests. It will stretch Federal dollars further by fully engaging the private philanthropic sector. It will reduce the long-term burden on state agencies that already are struggling to fulfill their stewardship commitments, and it will bring more landowners into the pool of possible projects. We also believe it can be done in a way that smoothly integrates with the existing, highly regarded program.

Proposal in Brief

- States would be given the option to have qualified private land trusts act as the easement holders and monitors of Forest Legacy easements. Each state lead agency would decide whether it wanted the land trust option or not. For those states that did, the land trust role would be examined on a project-by-project basis through the existing competitive process run by each state.
- All other aspects of the existing program would remain unchanged. Forest Legacy grants would continue to go to the states via the designated state lead agency, not to land trusts directly. The state lead agency would continue to have final authority over all easement language, management plans, *etc.* Proposed projects in which a land trust will be the primary holder of the Legacy easement would go through the same state and Federal ranking process as all other projects (*i.e.,* those where states would hold the easement).
- States would still hold a direct interest in the easement, but this could be achieved through the state taking an executory ("back up") interest, that could be exercised if the land trust went out of business or was not upholding its stewardship responsibilities.
- All FLP requirements would apply for a land trust-held easement. For example, all easements would have to be consistent with Forest Legacy program require-

ments, and be subject to Forest Service review. Project appraisals would have to be completed using Federal appraisal standards, and all cost-share projects would need to completed within the grant period.

- There would be a mechanism for ensuring land trusts are fully qualified to hold and steward Forest Legacy easements. We would propose the Forest Legacy program work with LTA on developing these criteria as part of their rigorous new accreditation process for the nation's land trusts.

Why Make the Change?

- *Stretch Federal dollars*—Today, the demand for Forest Legacy funds clearly outstrips available resources. Private foundations and individual donors partner regularly with the nation's private land trusts, but typically do not underwrite the activities of public agencies. Allowing land trusts to hold Forest Legacy easements would bring these important private philanthropic resources fully to bear at the project level.
- *Reduce stewardship burden on the states*—States must find room in already tight budgets for the ongoing stewardship and monitoring responsibilities that come with holding Forest Legacy easements. In many states, the land trust community's capacity for land stewardship is equal to or greater than that of state agencies. Despite this, these stewardship resources are left on the sidelines because land trusts cannot hold FLP easements.
- *Reach more forest landowners*—In addition to fiscal considerations, Forest Legacy's current rules also compromise the ability of the program to work with landowners who will not accept a governmental agency holding an easement on their lands. By not fully engaging land trusts, FLP is losing a category of landowners who may in fact hold some of the most important lands to protect.

Who Supports the Idea?

A wide range of private forest landowners, timber industry representatives, land trusts, and state foresters support this change, and have indicated their support in the attached sign-on letters.

Improving Forest Legacy

Why Private Forests Matter

The value of the nation's private forest lands is in no way limited to their owners alone. Private forests play a critical role in sustaining rural economies and providing forest products and essential ecosystem services that benefit us all. More than ½ of the United States' entire freshwater supply originates from forests,[1] and forest biomass is an important renewable energy alternative to imported fossil fuels. Per dollar of investment, forests create more jobs than any other economic sector, and are the lifeblood of many rural communities.[2]

Despite the great importance of these lands, their future is uncertain. Our nation's private forests are increasingly threatened by conversion and development as populations trend ever upward and drive sprawl into our forests.[3] At the same time, today's tough economy has made earning a livelihood from working forestlands increasingly difficult. This fiscal strain coupled with conversion pressures challenge the ability of private forest landowners to maintain their lands as forest. When these lands are lost to conversion, it is not only vital ecosystem services that are sacrificed; for the families and communities that have depended on these lands for generations, it also spells the end to a way of life.

The Forest Legacy Program

Since 1990, the USDA's Forest Legacy program has been a critical source of funding for the permanent conservation of our nation's private forests. Under Forest Legacy, which is administered by the U.S. Forest Service, USDA provides grants to designated state agencies to purchase conservation easements from willing landowners. Because of its use of easements, Forest Legacy allows for the conservation of working forestlands while keeping these lands in private ownership and on local tax rolls. This is an attractive option for both landowners and communities that do

[1] Brown, T.C., *et al.* 2005. *The source of water supply in the United States.* RMRS–RWU–4851 Discussion Paper. 57 p. Unpublished report. On file with: U.S. Department of Agriculture, Forest Service. Rocky Mountain Research Station, Fort Collins, CO.

[2] Garrett-Peltier, H. (2010). Political Economy Research Institute, University of Massachusetts, Amherst.

[3] Stein, S.M., *et al.* 2009. *Private forests, public benefits: Increased Housing density and other pressures on private forest contributions.* PNW–GTR–795 General Technical Report. U.S. Department of Agriculture, Forest Service. Pacific Northwest Research Station, Portland, OR.

not wish to pursue conservation if it means removing lands from private ownership. Since its inception, Forest Legacy has conserved more than 2.2 million acres in 43 states and territories.

Why Forest Legacy Needs a "Land Trust Option"

Today, the Forest Legacy program has reached a point where demand for its funds is clearly outstripping its available resources. On the demand side, ever more states are participating in the program (53 states and territories as of writing this), which means that the total number of projects being proposed for Legacy funding each year continues to increase. At the same time, the average cost of a Forest Legacy project also is increasing relentlessly due to rising land values. On the supply side, Forest Legacy funding has essentially plateaued at $50–$60 million a year. This extremely effective and popular program either needs to see dramatic increases in overall funding, or it needs to find ways to stretch its resources further. We would argue strongly that *both* of these things need to happen, but will focus the balance of this testimony on one way we think USDA can make limited Forest Legacy dollars go further.

The Role of Land Trusts

From the beginning of the Forest Legacy program, nonprofit conservation organizations (known as "land trusts") have acted as facilitators of many Forest Legacy projects. These organizations have served as originators, and as a transactional—and sometimes financial—bridge between private landowners and state agencies. Under the current program, however, land trusts cannot directly hold conservation easements funded through Forest Legacy. As a result, these state agencies must find room in already stretched budgets for the ongoing stewardship and monitoring responsibilities that come with holding an easement. In many states that participate in Forest Legacy, the land trust community has an equal or greater capacity for land stewardship when compared to state agencies. However, despite this great potential, these stewardship resources are left on the sidelines because land trusts cannot hold the easements. Further, not allowing land trusts to hold Forest Legacy easements also cuts off a critical source of capital that could otherwise be used to stretch Forest Legacy dollars: the private philanthropic sector. Private foundations and individual donors partner regularly with private land trusts, but are largely unwilling to directly subsidize the activities of public agencies.

An amendment to Forest Legacy enabling state lead agencies, at their discretion, to allow qualified, nonprofit conservation organizations to hold Forest Legacy easements would overcome both of these financial hurdles. Once established, the change would cost the Federal Government nothing, save state forestry agencies time and money, and greatly stretch the effectiveness of Forest Legacy in preventing the loss of private forestlands. Adding the land trust option to Forest Legacy would allow it to mirror analogous USDA land conservation programs, such as the Farm and Ranch Lands Protection program (FRPP), that already take advantage of the substantial cost-savings that a full partnership with land trusts can afford.

Saving Money and Supporting States

Land trusts have a strong track record of easement stewardship, and states should have the right to utilize this asset if they so choose. States regularly work with land trusts in the implementation of their own conservation programs, and multiple state implementing agencies have expressed frustration with the current inflexibility of Forest Legacy, including Missouri, Washington, and California. In a letter to California's Senators, Ken Pimlott, the director of the California Department of Forestry and Fire Protection, articulated the difficulties the agency is encountering when trying to implement Forest Legacy:

> "In California, the Federal requirement for the state or another public entity to hold the easement creates substantial difficulties when trying to combine Federal Forest Legacy program funding with state conservation bond funds and private funding sources. If Federal Forest Legacy program funds are involved, the state or another government agency must hold the easement, rather than allowing a qualified nonprofit land trust to play that role. This limitation in the Federal law places administrative burden on the Department of Forestry and Fire Protection, and can make it difficult for conservation projects to leverage Federal Forest Legacy program funds with other funds."

These sentiments and their timeliness were echoed in a letter from Peter Goldmark, the Washington State Commissioner of Public Lands, to Senator Patty Murray:

"Forest land conservation partners of the Washington State Department of Natural Resources and elsewhere in the country are seeking statutory authorization for qualified land trust organizations to hold title to conservation easements under Forest Legacy. I support this objective, and the matter seems a timely one given that regular order hearings on the 2012 Farm Bill reauthorization are scheduled to begin soon. Along with project benefits, this change would provide new opportunities for private fundraising that complements and leverage Federal contributions to Forest Legacy."

Working with Private Landowners

In addition to fiscal considerations, the lack of flexibility under Forest Legacy's current rules also compromises the ability to work with landowners who will not accept having a governmental agency hold an easement on their lands. In many cases, local nonprofit groups may be better equipped than state agencies to work with landowners and build ongoing community support for a project. The current inflexibility of the Forest Legacy program can prevent states from utilizing local nonprofits in this capacity, and preclude the conservation of critical forestlands. While it is true that the Forest Legacy program is already "oversubscribed," by not fully engaging land trusts, it is losing a category of landowners who may in fact hold some of the most important lands to protect.

In New Hampshire, where the state motto of "live free or die" still resonates with many private landowners, the Forest Society has had several potential Forest Legacy projects not proceed for this reason. One example is a 3,000 acre family forest parcel in the upper Merrimack River watershed, an area considered by the U.S. Forest Service to be the *most threatened watershed in the nation* in terms of private forest loss.[4] The project is an ideal fit for Forest Legacy in terms of the land resource and management approach, but the landowners would only accept the Forest Society as the easement holder—the Forest Society has built relationships with forest owning families that in some cases go back generations. To date, the Forest Society has been unable to find an alternate approach to funding the project, and the land still remains very much at risk.

Are Land Trusts Qualified?

The nation's land trust community includes a wide variety of organizations, including many with expertise and capacity that matches (and in some case surpasses) that of public agencies in their given service area. Founded in 1901, the Society for the Protection of New Hampshire Forests came into being at the same moment in conservation history as the U.S. Forest Service, with the same mission of conservation and stewardship through good forestry. The Society *was* New Hampshire's *de facto* forestry agency until the 1940s, when the state created its forestry and parks agencies. Today, with 10,000 members and 40 full-time staff, the Society is New Hampshire's largest private conservation landowner, owning 170 forest reservations in more than 95 communities, comprising 50,445 acres, and over 600 conservation easements covering more than 100,000 acres. This includes numerous properties where state or Federal funds (FRPP, NOAA, *etc.*) were used to purchase property interests held and managed by the Society.

Since 1993, the Pacific Forest Trust has been dedicated to conserving and sustaining America's vital, productive forest landscapes. Working with forest owners, communities and an array of partners, PFT advances innovative, incentive-based strategies to safeguard our nation's diverse forests. In so doing, the organization ensures forests continue to provide people everywhere—from rural communities to urban centers—with a wealth of benefits, including clean water, sustainably harvested wood, green jobs, wildlife habitat and a livable climate. Pacific Forest Trust actively pursues this mission through land conservation, and currently holds 24 conservation easements on nearly 50,000 acres in both California and Oregon. In addition to these lands, PFT also holds fee title to more than 4,500 acres in these two states. Pacific Forest Trust has worked in close collaboration with state agencies in the development of these easements, and to date has received more than $22.3 million in state funding for their acquisition, as well as $200,000 in pre-project support.

Key Considerations

We believe adding a land trust option to Forest Legacy can and should be made in a way that is minimally disruptive to the administration of the existing program. With this in mind, we would propose the following key framing principles for how the change should be made:

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[4] *Id.*

- Forest Legacy **grants would continue to go to the states** via the designated state lead agency, not to land trusts directly.
- Proposed projects in which a land trust will be the primary holder of the Legacy easement would go through **the same state and Federal ranking process** as all other projects (*i.e.,* those where states would hold the easement).
- There would be a **filtering mechanism for making sure land trusts are fully qualified** to hold and steward Forest Legacy easements. States could elect to work only with certified land trusts, or the Forest Legacy program could partner with the Land Trust Alliance (LTA) to develop these criteria.
- **States could still hold an interest in the easement**. This would be achieved by the state taking an executory ("back up") interest that could be exercised if the land trust went out of business or was not upholding its stewardship responsibilities. In the case of Legacy funds being used to purchase fee interest in land that would be owned and managed by a land trust, the state could hold a reverter interest in the fee, so that if the land trust fails in its obligations under the grant, the state would take title to the land.
- **All FLP requirements would apply** for a land trust-held easement. For example, all easements would have to be consistent with Forest Legacy program requirements, and be subject to Forest Service review. Project appraisals would have to be completed using Federal appraisal standards, and all cost share need to completed within the grant period.

In sum, we believe a simple change to the Forest Legacy program giving states the option to have private land trusts to hold and monitor Forest Legacy easements will unlock the full potential of the program to conserve the nation's private forests. It will stretch Federal dollars further by fully engaging the private philanthropic sector. It will reduce the long-term burden on state agencies already struggling to keep their stewardship commitments, and bring more landowners into the pool of possible projects. We also believe it can be done in a way that causes minimal disruption to the existing, highly regarded program.

Thank you very much for your consideration of our proposal. We look forward to more detailed discussions in the weeks and months ahead as the House does its critical work on the 2012 Farm Bill.

RAND WENTWORTH,
President,
Land Trust Alliance;

MARK ACKELSON,
President,
Iowa Natural Heritage Foundation;

LAURIE WAYBURN,
President,
Pacific Forest Trust;

JANE A. DIFLEY,
President/Forester,
Society for the Protection of New Hampshire Forests;

GIL LIVINGSTON,
President,
Vermont Land Trust.

ATTACHMENT

March 21, 2012

Hon. DEBBIE STABENOW,
Chairwoman,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.;

Hon. FRANK D. LUCAS,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. PAT ROBERTS,
Ranking Minority Member,
Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.;

Hon. COLLIN C. PETERSON,

Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Dear Chairwoman Stabenow, Chairman Lucas, and Ranking Members Roberts and Peterson:

As you begin work on the upcoming farm bill, we write to ask your help in streamlining the Forest Legacy program to both reduce costs and more fully realize its potential in protecting our nation's private forestlands.

The Importance of Forests

Private forests play a critical role in sustaining our rural economies and providing essential ecosystem services. More than ½ of the United States' entire freshwater supply originates from forests, and forest biomass is a potential renewable energy alternative to imported fossil fuels. Per dollar of investment, forests create more jobs than any other economic sector, and are the lifeblood of many rural communities.

Despite the importance of these lands, however, their future is uncertain. The loss of private forestlands not only sacrifices crucial ecosystem services, but destroys the foundation of sustainable rural jobs, as well. With the United States projected to lose up to 75 million acres of forest over the next half century, the conservation of these lands is paramount to protecting a resource that countless Americans depend upon for their jobs, livelihoods, and well-being.

Strengthening Forest Legacy

Forest Legacy helps states protect our vital forest resources by funding conservation easements on private forestlands. Easements provide a powerful tool for landowners and communities to conserve their working forestlands while keeping them in private ownership and on local tax rolls. Partnering with nonprofit conservation organizations in holding easements can substantially reduce administrative burden for state implementing agencies, and improve overall program efficiency.

While analogous agricultural land conservation programs, such as the Farm and Ranch Lands Protection program, already take advantage of the substantial cost-savings partnering can afford, Forest Legacy currently does not allow state lead agencies to partner with nonprofits. As a result, state agencies must find room in already overextended budgets for the ongoing stewardship and monitoring responsibilities that come with holding an easement. This places undue administrative burden on state agencies, and can prevent important conservation projects from moving forward.

Simply allowing state lead agencies the option of partnering with qualified nonprofits to hold conservation easements funded through Forest Legacy would overcome this unnecessary but substantial obstacle to land conservation.

This new Federal flexibility would strengthen Forest Legacy by:

- Facilitating co-investment from states, local governments, and private funding sources to better leverage Forest Legacy funds;
- Minimizing long-term monitoring and stewardship costs by partnering with community-based groups capable of generating ongoing local support;
- Fostering the development of landscape-scale conservation by promoting public-private partnerships across multiple jurisdictions; and
- Enabling the development of large-scale projects through the combination of multiple conservation tools, such as easements, acquisitions, and tax incentives.

Saving Money and Saving Forests

In this time of fiscal constraint, finding ways to reduce agency costs and sustain rural economies is critical. By allowing state lead agencies to partner with nonprofit organizations on the Forest Legacy program, we have a unique opportunity to do just that. As you begin work on the upcoming farm bill, we urge your support for this important improvement to Forest Legacy. We look forward to working together to both save money and strengthen this important tool for rural communities and conservation.

Sincerely,

Alabama Land Trust
Appalachian Mountain Club
Bitter Root Land Trust
Chattowah Open Land Trust
California Department of Forestry & Fire Protection
Georgia Land Trust
Hancock Timber Resource Group
Humboldt Redwood Company
Iowa Natural Heritage Foundation
Land Trust Alliance
Land Trust of Arkansas
Peconic Land Trust
Pennsylvania Land Trust Association
Port Blakely Companies Potlatch
Prickly Pear Land Trust
Roseburg Forest Products

California Forestry Association
The Collins Companies
Colorado Conservation Trust
Columbia Land Trust
Conservation Forestry, LLC
Conservation Northwest Forest Guild
The Forestland Group, LLC
Gallatin Valley Land Trust
The Lyme Timber Co.
Mendocino Redwood Company
National Alliance of Forest Owners
National Woodland Owners Association
Northland Forest Products
Northwest Connections
Northwest Natural Resource Group
Pacific Forest Trust
Sedgwick Land Company
Serenity Forests, LLC
Society for the Protection of New Hampshire Forests
Tall Timbers Research Station & Land Conservancy
Vermont Land Trust
Washington Environmental Council
Western Pennsylvania Conservancy

SUPPLEMENTARY MATERIAL SUBMITTED BY SOCIETY OF AMERICAN FORESTERS

On behalf of the 12,000 members of the Society of American Foresters, I would like to thank Chairman Thompson, Members, and staff of the House Agriculture Subcommittee on Conservation, Energy, and Forestry for affording Michael Goergen the opportunity to testify about important forestry programs in the farm bill on May 18th. Please accept the attached copy of the SAF written testimony [1] with five documents that outline the effectiveness and success of forest best management (BMP) programs across the country referenced by Michael Goergen during the question phase of the hearing last week.

The attached research [2] includes two *Journal of Forestry* articles that review BMP implementation rates, a study commissioned by the Society of American Foresters and the National Association of State Foresters that reviewed the methods and data used by the EPA to identify impaired watersheds due to silvicultural activities, and two documents recently published by the National Council on Air and Stream Improvement that review forest best management practices and analyze the effectiveness of these programs on water quality.

Thank you again and please contact me if you have any questions.

Best,

JOHN R. BARNWELL,
Assistant Director, Forest Policy,
SOCIETY OF AMERICAN FORESTERS.

SUBMITTED STATEMENT BY TOM JULIA, PRESIDENT, COMPOSITE PANEL ASSOCIATION

Chairman Thompson, Ranking Member Holden, distinguished Members of the Subcommittee on Conservation, Energy, and Forestry, and on behalf of the Composite Panel Association (CPA), thank you for the chance to submit comments on the formulation of the 2012 Farm Bill, specifically regarding its energy and forestry programs.

I am writing to underscore the critical need to revise the definition of "Renewable Biomass." It is essential for our industry and many others who use wood fiber as their feedstock, that government programs not encourage the diversion of these materials and byproducts away from their current use in higher valued products and into boilers as fuel. Diversion of this sort adds to our costs and sometimes even impacts the availability of our raw materials. We believe that public policy should encourage growing the sources of renewable biomass for energy programs, not the diversion of materials that are now productively used for higher valued products.

The Composite Panel Association, founded in 1960, is headquartered in Leesburg, Virginia. Our 157 members are located throughout the United States, Canada and Mexico and represent manufacturers of particleboard, hardboard, engineered wood siding, engineered wood trim and decorative surfaces, which are used in retail, healthcare, residential and commercial applications.

The CPA represents companies responsible for more than 90% of the North American production capacity of particleboard, MDF, engineered wood siding and hard-

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[1] The document referred to is located on p. 2439.

[2] The documents referred to: (1) *Assessing the Effectiveness of Contemporary Forestry Best Management Practices (BMPs): Focus on Roads,* Special Report No. 12–01, January 2012; (2) *Compendium of Forestry Best Management Practices for Controlling Nonpoint Source Pollution in North America,* Technical Bulletin No. 966, September 2009; (3) *A Review of Waterbodies Listed as Impaired by Sivicultural Operations,* National Association of State Foresters and the Society of American Foresters, June 2000; (4) *The Effectiveness of Forestry Best Management Practices for Sediment Control in the Southeastern United States: A Literature Review,* SOUTH. J. APPL. FOR. 35(4) 2011, pp. 170–177; and (5) *Trends for Forestry Best Management Practices Implementation,* JOURNAL OF FORESTRY, September 2010, pp. 267–273, are retained in Committee file.

board. We also represent most of the companies making wood-based decorative surfacing materials, as well as others affiliated with the composite panel industry.

Composite panel manufacturing and the use of our products in both construction applications and home and office furnishings, is a major worldwide industry. In the U.S. alone, our mills employ more than 20,000 workers, and affect more than 350,000 additional jobs, typically in small rural communities throughout the nation.

We pride ourselves as being among the greenest industries in the world, as almost all of our members' panel products are made with 100% recycled, residual or post-consumer wood. Indeed our industry is predicated on recycling and always has been. The CPA itself is a world leader in quality assurance, product testing and certification, sponsorship of voluntary industry standards, and development of technical data about industry products.

One of the energy programs in the 2008 Farm Bill that we wanted to highlight today is the Biomass Crop Assistance Program (BCAP). We agree that the BCAP program, when established, was well intentioned and had a laudable goal of reducing our nation's reliance upon foreign and non-renewable energy sources. As you know, its goal was to tap into our domestic agricultural and engineering resources and infrastructure and develop reliable, renewable domestic energy.

The funding for the program was intended to help incentivize farmers, ranchers, and forest landowners to participate in this new marketplace by developing and growing new "energy crops" or sending waste products to biomass conversion facilities where they would then be used for bioenergy. However, as with many well intentioned programs, there were unintended consequences.

The Composite Panel Association and the Wood Fiber Coalition who represent longstanding U.S. manufacturing, agricultural and service industries that depend on a reliable supply of wood fiber quickly identified one major flaw with the BCAP program after it was first unveiled. Our members recognized that the matching payment portion of the BCAP program began creating a diversion of wood by-products, such as sawdust, shavings and woodchips away from established markets and uses in the composite panel industry to bioenergy facilities. Manufactured products such as composite wood panels used in wood-based furniture, cabinets, doors, flooring, architectural moulding and millwork and other commercial uses of fiber such as landscape mulch and commercial growing media rely exclusively upon these wood by-products as their only available raw material. As BCAP was rolled out, these materials were diverted away from the wood fiber industry.

After considerable consultation and tens of thousands of written comments from the public, USDA established a rule to prevent this specific market distortion by emphasizing that the purpose of the program was to incentivize ". . . cultivation of new biomass for new markets rather than divert biomass from existing markets." The rule goes on to define sawdust, shavings, woodchips and softwood and hardwood bark that has existing markets as a high-value material is not eligible for BCAP funding. Additionally, the biomass material that could be considered to be eligible for subsidy must be collected or harvested directly from the land before delivery to a biomass conversion facility. I would encourage the members of the House Agriculture Committee to retain the spirit of preventing market distortion as they move forward in the 2012 Farm Bill process and consider the future of BCAP and other energy programs in the farm bill and other energy related legislation.

The current statute defines "renewable biomass" in relevant part as ". . . any organic matter that is available on a renewable and recurring basis . . ." Although there is an exclusion in the statute for materials from public lands that are used in higher valued products, the exclusion is not explicit regarding such materials from private lands. Byproducts such as bark, sawdust, shavings and woodchips could be considered to be eligible for subsidies in programs promoting bioenergy.

Manufactured products such as composite wood used in wood-based furniture, cabinets, doors, flooring, architectural moulding and millwork and other commercial products such as landscaping mulch and commercial growing media rely exclusively on these wood by-products as their only available raw material. A definitional exclusion of biomass from private lands for use in higher valued products is needed in order to eliminate the incentive to divert basic raw materials away from existing industries that would be put at risk. At the same time, it would encourage the expansion of America's fuel supply and the development of new sources of renewable energy.

Renewable Biomass used for energy should emphasize unmerchantable and unused materials such as forest thinnings, stumps and agricultural waste. Only wood collected or harvested directly from the land that cannot be used for a higher value product or specifically grown for energy should be incentivized as fuel.

The American Nursery and Landscape Association testified in a hearing before the House Agriculture Committee on May 8, 2012 and discussed this topic as well.

We have the same request that they do on this issue. **Congress should embrace a Federal definition of renewable biomass that excludes materials that could be used for higher-value products, including, but not limited to, composite wood panels, lumber, finished or other manufactured wood products, mulch, nursery media, paper and packaging. Only biomass materials collected or harvested directly from the land should be federally incentivized.** In doing so, Congress would recognize that forest and wood mill byproducts are essential feedstocks for existing industries supplied through an established, competitive and sustainable free market. A definitional exclusion of biomass for goods already used in higher valued products would eliminate the incentive to divert basic raw materials away from existing industries.

We would ask the Members of the Agriculture Committee to support an amendment to the definition of "Renewable Biomass" that excludes bio-based materials from public and private land that are used for "higher value products." This change is critical for our industries because many legislative initiatives now and in the future will look to the definition of "renewable biomass" found in the farm bill as a template for other energy proposals. The correction should be made now.

Thank you for the opportunity to submit comments and please do not hesitate to contact me if you have any comments or questions. CPA looks forward to continuing to support the work of the Congress on this important matter.

Sincerely,

TOM JULIA, *President,*
Composite Panel Association.

SUBMITTED LETTER BY PHILIP RIGDON, PRESIDENT, INTERTRIBAL TIMBER COUNCIL

May 31, 2012

Hon. GLENN THOMPSON,
Chairman,
Subcommittee on Conservation, Energy, and Forestry,
House Committee on Agriculture,
Washington, D.C.;

Hon. TIM HOLDEN,
Ranking Minority Member,
Subcommittee on Conservation, Energy, and Forestry,
House Committee on Agriculture,
Washington, D.C.

Re: Testimony Submitted for the Subcommittee's May 18, 2012 Hearing on the Next Farm Bill's Energy and Forestry Issues

Dear Chairman Thompson and Ranking Member Holden:

On behalf of the Intertribal Timber Council (ITC), I hereby submit testimony for your consideration and inclusion in the Subcommittee's formal record of its May 18, 2012 hearing on the next farm bill's energy and forestry issues.

The ITC is a 36 year old association of 60 forest owning tribes and Alaska Native organizations that collectively manage more than 90% of the 18 million acres of timberland and woodland that are under BIA trust management. These forests cover about ⅓ of the Indian trust land base and are a primary source of revenue for tribal governments. They support thousands of jobs and many millions of dollars in economic activity in and around Indian Country, as documented by such studies as the 2008 University of Wisconsin evaluation of the Regional Economic Impacts of the Menominee Tribal Enterprises Forestry and Mill Operations. Beyond their economic importance, tribal forests also store and filter the water and purify the air to sustain life itself. They sustain habitats for the fish and wildlife that provide sustenance for our people. They produce foods, medicines, fuel, and materials for shelter, transportation, and artistic expression, and are vital to our cultural and spiritual lives.

The ITC proposes that the next farm bill include the items discussed below (not in order of priority):

Authorize Forest Service Tribal Assistance Programs

The U.S. Forest Service (USFS) shares over 2,500 miles of common border with Indian tribes. There is a clear need for transboundary landscape-scale management to reduce threats from wildfire, insects, and disease to resources held in trust by the United States for Indians. In addition, tribes have reserved treaty, cultural and other rights and interests on millions of acres of land administered by the USFS. Yet, the USFS lacks basic ongoing programmatic authority to support cooperative, collaborative resource management with tribal governments. Such USFS authority has long existed for state government. To rectify this void, we request that the next farm bill authorize USFS financial, technical, educational and related assistance to tribal governments for—

(A) Tribal consultation and coordination with the USFS on:

—access and use of USFS land for traditional and cultural purposes,

—coordination and cooperative management of shared resources,

—provision of tribal traditional and cultural expertise or knowledge,

—substantive participation in the development and revision of NFS forest management plans;

(B) Tribal conservation education and awareness projects and activities; and

(C) Technical assistance for tribal forest resources planning, management and conservation.

Change the Name of USFS State and Private Forestry to "Tribal, State and Private Forestry"

We request that the farm bill instruct the USFS to change "State and Private Forestry" (S&PF) to "Tribal, State and Private Forestry." S&PF, charged with working with non-Federal entities, has included the Office of Tribal Relations since its inception in 2003. We believe the name change is needed to honor government-to-government relationships and to acknowledge the USFS's trust responsibilities and increasingly important engagement with tribal governments. The USFS has been reluctant to make the change on its own volition.

Eliminate the Trust Land Prohibition in the Open Spaces Program

The 2008 Farm Bill (the Food, Conservation and Energy Act of 2008, P.L. 110–234) Section 8003 authorized the Community Forest and Open Space Conservation Program (CFP). Tribal governments are among entitles eligible for USFS grants to acquire in fee forestland threatened with conversion to non-forest use. All grant recipients must manage the acquired forest pursuant to a community forest plan that seeks to assure its continued utilization as forest. Local governments and qualified nonprofits can, however, sell the CFP forest or convert it to non-forest use, but must reimburse the USFS for the sale price of the CFP forest and are barred from further participation in the program. Additionally, CFP forestlands acquired by local governments become local government land, subject to local jurisdiction and not subject to taxation. Tribal governments are prohibited from having CFP-acquired land taken into trust (Sec. 8003(c)(6)(B)). There is no explanation for this discriminatory tribal treatment in the legislative history. If there is concern that land taken into trust may be converted to non-forest use, such as gaming, the general provisions of the CFP would make the tribe liable for the penalty and prohibit it from future participation, just as state and local governments and nonprofit organizations. If the specter of gaming is the issue, it must be recognized that BIA regulations for converting fee land into trust would bar gaming, subject to a Secretarial two-part gaming determination and concurrence of the state governor. It is unfair and unreasonable to require a tribal government, using the CFP to acquire forest land for its citizens, to subject that forest land to the jurisdiction and taxation of some other government.

Make Stewardship Contracting Permanent

Stewardship Contracting authority, established in the 1999 Interior Appropriations Act (16 U.S.C. 2104 note, Public Law 105–277) (as amended by section 323 of the FY 2003 Interior Appropriations Act (117 Stat. 275)), enables the USFS or BLM to enter collaborative agreements with tribes and local communities to perform forest management activities on USFS or BLM land.

Proceeds from the sale of merchantable material harvested under stewardship contracts can be used to help offset costs under "goods for services authority", fund additional service work through the same contract, or finance other approved stewardship contracting projects. The stewardship contracting authority also enables several projects to be bundled together to reduce costs and increase administrative efficiency. Stewardship contracts can last up to 10 years and can be awarded on a "best value" basis, which allows consideration of other criteria for selection besides lowest bid, such as local employment.

Tribes can utilize stewardship contracting authority when performing activities on USFS or BLM land, including those performed pursuant to the Tribal Forest Protection Act (TFPA, P.L. 108–278) authority to protect trust lands. Stewardship contracting authority expires in 2013. We join a host of other entities in supporting permanent stewardship contracting authority as an effective and cost-efficient forest management tool. Additionally, we request that stewardship contracts be allowed to extend for at least twenty years to provide a stable source for investment in workforce and infrastructure development.

Tribal Forest Protection Act Revisions

The ITC requests that the farm bill incorporate two minor revisions to the TFPA to improve its implementation. Since 2004, a total of only 11 TFPA projects have been approved. Because Tribes have frequently not been informed of USFS refusal to enter into TFPA projects, we request that section 2(d) be revised by changing the word "may" to "shall". In addition, there is a need to make consideration of the factors listed in section 2(e) mandatory, by changing the word "may" to "shall."

> (d) NOTICE OF DENIAL.—If the Secretary denies a tribal request under subsection (b)(1), the Secretary ***shall*** issue a notice of denial to the Indian tribe,
>
> (e) PROPOSAL EVALUATION AND DETERMINATION FACTORS.—In entering into an agreement or contract in response to a request of an Indian tribe under subsection (b)(1), the Secretary ***shall***—

Permanent Tribal Watershed Assistance Funding Authority

Section 302 of the Healthy Forests Restoration Act (P.L. 108–148) established the Tribal Watershed Forestry Assistance Program to provide technical, financial and related assistance to Indian tribes for the purpose of supporting tribal stewardship capacities and activities on land under the jurisdiction of or administered by the Indian tribes. Subsection (e) authorized up to $2.5 million a year for Fiscal Years 2004–2008. However, the program has never received an appropriation. We request that the farm bill amend the program to authorize "such sums as necessary" for this program without fiscal year limitation.

Tribal "Anchor Forest" Pilot Program

Many tribes know firsthand that harvesting, transportation, management, and processing infrastructure are essential to maintain forest health, ecosystem services and productivity, generate revenues to provide governmental services, and provide employment opportunities for rural communities. Without the ability to economically harvest forest products, this infrastructure can be quickly lost and be extremely difficult to replace. The ITC is currently exploring the concept of "anchor forests" as a means to maintain economically viable infrastructure. We request that the next farm bill authorize the Secretary of Agriculture to work in concert with the Interior, Commerce, Labor, and Energy Departments to organize and deliver, in a one-stop-shopping arrangement, convenient access to existing Federal programs that could be employed to assist the preservation of forest infrastructure. In addition to organizing and delivering existing programs, the Secretary of Agriculture would be further authorized to devise and deliver such further assistance as is otherwise necessary to maintain efficient regional harvesting, transportation, management, and processing infrastructure. Such authority could include, for instance, operating subsidies, manufacturing facility modernization grants, or long-term access to timber from nearby National Forests. The Agriculture Secretary should be allowed to exercise great flexibility to design and deliver the needed additional assistance to the identified pilot forest-dependent tribal and other communities and governments. As a pilot program, application of the authority would be limited to one or more forest-dependent tribal and other communities. The pilot program would be evaluated after 10 years and a report on the efficacy of anchor forests would be prepared for appropriate Congressional Committees and the Administration.

On the behalf of the ITC, I express our advance appreciation of the Subcommittee's effort to address Indian Country's ideas and comments for the next farm bill. It is a large but essential task, and we hope the Subcommittee finds our suggestions merit its support. As you may gather from our testimony, the reach of ideas is broad. Some would involve changing only a few words, while others are, at this point, only general concepts that will be further developed and refined. We look forward to working with you in preparing a new farm bill that will benefit Indian forestry and all of Indian Country.

Sincerely,

PHILIP RIGDON,
President,
Intertribal Timber Council.

SUBMITTED STATEMENT BY KEVIN WASLASKI, CHAIRMAN, U.S. CANOLA ASSOCIATION

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee and full Committee, the U.S. Canola Association (USCA) is pleased to provide this written statement for the record on the energy title programs for the next farm bill and their role in expanding markets for farmers and economic growth for rural America.

There are several energy title programs in which canola producers have a strong interest, including the Biobased Market Program (Section 9002), the Biodiesel Fuel Education Program (Section 9006), and the Bioenergy Program for Advanced Biofuels (Section 9005). USCA recognizes that the energy title programs do not have baseline funding beyond 2012, which creates a significant challenge to extending these programs and building on the benefits they have provided. However, USCA supports the Biobased Market Program and the Biodiesel Fuel Education Program and we believe that the relatively low cost and the benefits provided through these programs warrant their continuation with an increased level of mandatory funding.

Section 9002, Biobased Market Program: The Biobased Market Program continues and expands the Federal biobased procurement program and voluntary labeling program. This is an effective and important program for promoting the emerging biobased industry, which has significant potential to enhance agricultural markets, displace foreign petroleum and fossil fuels, and contribute new "green" jobs to the economy. Under the Biobased Market Program, USDA administers the BioPreferred Program, which is a preferred procurement program for all Federal agencies.

The Biobased Market Program, established and expanded through previous farm bills, plays an important role in the development of the biobased products industry in the United States. By providing a procurement preference for Federal Government purchases, the program helps pull products into the market and encourages investment and development of biobased products.

The Biobased Market Program received mandatory funding totaling $9 million for FY 2008–2012. With the expansion of the BioPreferred and biobased labeling program, USCA supports providing increased mandatory funding for USDA to administer the programs and further promote biobased markets. USCA supports mandatory funding of $3 million per year for the Biobased Market Program, as provided in the farm bill passed by the Senate Agriculture Committee.

Section 9006, Biodiesel Fuel Education Program: The Biodiesel Education Program plays a vital role in helping expand marketplace acceptance and use of biodiesel as a low-carbon, renewable diesel replacement fuel. It supports technical outreach efforts to engine manufacturers, truckers, and fuel marketers that will eventually allow the use of higher biodiesel blends in conventional diesel applications. The education program serves to expand and increase market penetration, thus promoting growth for the entire industry. This translates into higher production, more jobs, and more economic value, especially in rural communities.

Specifically, the biodiesel education program had a large part to play in building automakers trust in, and support for, biodiesel blends. Since 2003, the industry has achieved great success in garnering support from engine manufacturers for biodiesel through the biodiesel education program. Currently, 34 major U.S. automakers and engine manufacturers accept the use of B5 and up to B20.

The biodiesel industry produced a record 1.1 billion gallons in 2011, which supported over 39,000 jobs, generated income over $1.7 billion, and created more than $3 billion in GDP. Biodiesel also makes a significant contribution to rural economic development. All but a handful of the approximately 170 biodiesel production facilities in the U.S. are located in rural areas and nearly all of the feedstock used to produce biodiesel is grown or originates in rural areas. The U.S. Energy Information Administration (EIA) data for biodiesel production in 2011 showed that 847 million pounds of canola oil was utilized for biodiesel production. While not the primary biodiesel feedstock, it does represent an important and growing market for canola producers.

Biodiesel is providing energy, economic, and environmental benefits and USCA urges the continuation of this program with a relatively small investment of $2 million annually in mandatory funding in the 2012 Farm Bill.

Section 9005, Bioenergy Program for Advanced Biofuels: The Bioenergy Program for Advanced Biofuels is a program of significant interest and opportunity for biodiesel producers. However, USCA also recognizes the funding challenges and the many priorities in the farm bill. The industry is still working to establish itself in the competitive marketplace with the entrenched petroleum diesel industry, which enjoys the benefit of decades of infrastructure and market development. USCA believes that the Bioenergy Program for Advanced Biofuels can continue to play a role in supporting the development of advanced biofuels and we support the reauthorization of the program.

We appreciate the Committee holding this hearing on the farm bill energy and forestry programs and providing USCA the opportunity to submit this statement for the record. As always, we look forward to working with you on the development of a farm bill that includes an Energy Title and mandatory funding for priority programs.

Sincerely,

Kevin Waslaski

KEVIN WASLASKI,
Chairman,
U.S. Canola Association.

SUBMITTED STATEMENT BY STEVE WELLMAN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Chairman Thompson, Ranking Member Holden, and Members of the Subcommittee and full Committee, the American Soybean Association (ASA) is pleased to provide this written statement for the record on the energy title programs for the next farm bill and their role in expanding markets for farmers and economic growth for rural America.

There are several energy title programs in which soybean producers have a strong interest, including the Biobased Market Program (Section 9002), the Biodiesel Fuel Education Program (Section 9006), and the Bioenergy Program for Advanced Biofuels (Section 9005). ASA recognizes that the energy title programs do not have baseline funding beyond 2012, which creates a significant challenge to extending these programs and building on the benefits they have provided. However, the Biobased Market Program and the Biodiesel Fuel Education Program remain as high priorities for ASA and we believe that the relatively low cost and the benefits provided through these programs warrant their continuation with an increased level of mandatory funding.

Section 9002, Biobased Market Program: The Biobased Market Program continues and expands the Federal biobased procurement program and voluntary labeling program. This is an effective and important program for promoting the emerging biobased industry, which has significant potential to enhance agricultural markets, displace foreign petroleum and fossil fuels, and contribute new "green" jobs to the economy. Under the Biobased Market Program, USDA administers the BioPreferred Program, which is a preferred procurement program for all Federal agencies.

The soybean industry is also partnering with companies and investing resources into biobased product development. Funding from the farmers' checkoff dollars, administered by the United Soybean Board has been provided to companies for projects to develop soy biobased products.

The Biobased Market Program, established and expanded through previous farm bills, plays an important role in the development of the biobased products industry in the United States. By providing a procurement preference for Federal Government purchases, the program helps pull products into the market and encourages investment and development of biobased products.

The Biobased Market Program received mandatory funding totaling $9 million for FY 2008–2012. With the expansion of the BioPreferred and biobased labeling program, ASA supports providing increased mandatory funding for USDA to administer the programs and further promote biobased markets. ASA supports mandatory funding of $3 million per year for the Biobased Market Program, as provided in the farm bill passed by the Senate Agriculture Committee.

Section 9006, Biodiesel Fuel Education Program: The Biodiesel Education Program plays a vital role in helping expand marketplace acceptance and use of biodiesel as a low-carbon, renewable diesel replacement fuel. It supports technical outreach efforts to engine manufacturers, truckers, and fuel marketers that will eventually allow the use of higher biodiesel blends in conventional diesel applications. The education program serves to expand and increase market penetration, thus promoting growth for the entire industry. This translates into higher production, more jobs, and more economic value, especially in rural communities.

Specifically, the biodiesel education program had a large part to play in building automakers trust in, and support for, biodiesel blends. Since 2003, the industry has achieved great success in garnering support from engine manufacturers for biodiesel through the biodiesel education program. Currently, 34 major U.S. automakers and engine manufacturers accept the use of B5 and up to B20.

The biodiesel industry produced a record 1.1 billion gallons in 2011, which supported over 39,000 jobs, generated income over $1.7 billion, and created more than $3 billion in GDP. Biodiesel also makes a significant contribution to rural economic development. All but a handful of the approximately 170 biodiesel production facilities in the U.S. are located in rural areas. Approximately ½ of the annual biodiesel production is from soybean oil, but significant portions are also produced from rendered animal fats, waste grease, and canola oil. Nearly all of the feedstock used to produce biodiesel is grown or originates in rural areas. Biodiesel provides a valuable market for soybean oil that has historically provided a drag on overall soybean prices. Biodiesel has provided an outlet and market for soybean oil, which has experienced declining demand for use in food production due to trans fat issues. As soybeans are 80% meal and only 20% oil, use of soybean oil for biodiesel also has a positive impact on livestock feed markets as any soy oil demand or increased soybean crushing also increases soybean meal supplies.

As you can see, biodiesel is providing energy, economic, and environmental benefits and ASA urges the continuation of this program with a relatively small investment of $2 million annually in mandatory funding in the 2012 Farm Bill.

Section 9005, Bioenergy Program for Advanced Biofuels: The Bioenergy Program for Advanced Biofuels is a program of significant interest and opportunity for biodiesel producers. However, ASA also recognizes the funding challenges and the many priorities in the farm bill. The industry is still working to establish itself in the competitive marketplace with the entrenched petroleum diesel industry, which enjoys the benefit of decades of infrastructure and market development. ASA believes that the Bioenergy Program for Advanced Biofuels can continue to play a role in supporting the development of advanced biofuels and we support the reauthorization of the program.

We appreciate the Committee holding this hearing on the farm bill energy and forestry programs and providing ASA the opportunity to submit this statement for the record. As always, we look forward to working with you on the development of a farm bill that includes an Energy Title and mandatory funding for priority programs.

Sincerely,

Steven Wellman

STEVE WELLMAN,
President,
American Soybean Association.

SUBMITTED STATEMENT BY WOOD FIBER COALITION

Chairman Thompson, Ranking Member Holden, distinguished Members of the Subcommittee on Conservation, Energy and Forestry, and on behalf of the Wood Fiber Coalition, thank you for the chance to submit comments on the formulation of the 2012 Farm Bill, specifically regarding its energy and forestry programs.

The Wood Fiber Coalition (WFC), which represents longstanding U.S. manufacturing, agricultural and service industries that depend upon a reliable supply of wood fiber for the production and use of biobased consumer products, is concerned about possible unintended consequences resulting from biomass energy policies proposed by Congress this year.

In particular, we believe that Federal energy definitions should be written to promote the development and expansion of new resources and not the diversion of existing resources from biobased products that have been supporting jobs and the economy for decades.

For the domestic furniture industry alone, Census Bureau data shows 18,572 establishments, 338,262 employees, and a GDP contribution of $29.5 billion in 2010.

These jobs are already competing with offshore imports, and the last thing Congress should do is incentivize the diversion of a primary raw material used to make these products so domestic manufacturing becomes cost-prohibitive. The same applies to other wood-based consumer products like cabinets, flooring and doors, and also to landscaping, nursery and greenhouse production. None of these industries can remain viable without free-market access to our most essential feedstock.

One of the energy programs in the 2008 Farm Bill that we wanted to highlight today is the Biomass Crop Assistance Program (BCAP). We agree that the BCAP program, when established, was well intentioned and had a laudable goal of reducing our nation's reliance upon foreign and non-renewable energy sources. As you know, its goal was to tap into our domestic agricultural and engineering resources and infrastructure and develop new reliable, renewable domestic energy.

The funding for the program was intended to help incentivize farmers, ranchers, and forest landowners to participate in this new marketplace by developing and growing new "energy crops" or sending waste products to biomass conversion facilities where they would then be used for bioenergy.

Shortly after passage of the 2008 Farm Bill, a number of longstanding existing industries were negatively impacted by one major flaw within the BCAP program. The matching payment portion of the BCAP program began creating a diversion of wood by-products, such as bark, sawdust, shavings and woodchips, away from established markets and uses in the wood fiber industry and towards bioenergy facilities. Manufactured products such as composite wood panels used in wood-based furniture, cabinets, doors, flooring, architectural moulding and millwork and other commercial uses of fiber such as landscape mulch and commercial growing media rely exclusively upon these wood by-products as their only available raw material. As BCAP was rolled out, these materials were diverted away from traditional and long established markets to government subsidized bioenergy facilities.

After considerable consultation and tens of thousands of written comments from the public, USDA established a rule to prevent this specific market distortion by emphasizing that the purpose of the program was to incentivize ". . . cultivation of new biomass for new markets rather than divert biomass from existing markets." Additionally, the biomass material that could be considered to be eligible for subsidy must be collected or harvested directly from the land before delivery to a biomass conversion facility. We would encourage the members of the House Agriculture Committee to retain the spirit of preventing market distortion as they move forward in the 2012 Farm Bill process and consider the future of BCAP and other energy programs in the farm bill and other energy related legislation.

A prudent, cost-effective expansion of America's energy options is a laudable goal, particularly if it leads to reduced dependence on imported fossil fuels. To this end, the Wood Fiber Coalition supports Congressional efforts to promote the development of new, renewable energy sources. However, as the experience with the USDA Farm Service Administration's hastily launched Biomass Crop Assistance Program (BCAP) has shown, industries that rely on existing markets for wood fiber supplies may suffer irreparable harm if good judgment is not exercised in the development of comprehensive Federal energy policies.

For many decades, our industries have used forest and wood mill by-products, including bark, chips, sawdust, shavings and trim, in the production of valuable bio-based consumer products. Renewable, carbon-neutral wood by-products are primary components in the production of:

- Composite wood panels
- Wood-based furniture, cabinets, doors and flooring
- Wood-based architectural moulding and millwork
- Growing media for the production of trees and landscape plants
- Landscape mulch and other landscape materials
- Commercial growing media

Wood fiber incorporated into building materials now used to make furniture, cabinets, doors, flooring, and many other consumer products, as well as to support the landscaping and nursery industries, must not be subject to an option to become a subsidized commodity to the detriment of these vital industries. Few of our member companies have alternative raw materials to which they can turn, and most, without access to economically competitive, regionally available sources of wood fiber and wood fiber products, will be left with no alternative but to leave the United States and take their jobs offshore, or close down altogether.

To prevent this from happening, Federal policy should explicitly recognize that forest and wood mill by-products are essential feedstocks supplied through an established, competitive and sustainable free market.

Federal policy should focus its biomass programs entirely on the use of unmerchantable materials and agricultural waste, as well as, of course, those that are developed with the sole purpose of creating energy, such as switch grass or energy cane. This approach will expand the wood fiber basket and create new domestic jobs while also helping achieve alternative energy goals.

The current statute defines "renewable biomass" in relevant part as ". . . any organic matter that is available on a renewable and recurring basis . . ." Although there is an exclusion in the statute for materials from public lands that are used in higher valued products, the exclusion is not explicit regarding such materials from private lands. Byproducts such as bark, sawdust, shavings and woodchips could thus be considered to be eligible for subsidies in programs promoting bioenergy.

In all Federal legislation, Congress should embrace a definition of renewable biomass, for both public and private lands that excludes materials that could be used for higher-value products, including, but not limited to, composite wood panels, lumber, finished or other manufactured wood products, mulch, nursery media, paper and packaging. Only biomass materials collected or harvested directly from the land should be federally incentivized. In doing so, Congress would recognize that forest and wood mill byproducts are essential feedstocks for existing industries supplied through an established, competitive and sustainable free market. A definitional exclusion of biomass for goods already used in higher valued products would eliminate the incentive to divert basic raw materials away from existing industries.

We would urge the Members of the Agriculture Committee to support an amendment to the definition of "Renewable Biomass" that excludes bio-based materials from public and private land that are used for higher value products. This change is critical for our industries because many legislative initiatives now and in the future will look to the definition of "renewable biomass" found in the farm bill as a template for other energy proposals. The correction should be made now.

Finally, Congress should make a concerted effort to establish a unified, consistent definition of renewable biomass. There are at least 14 Federal definitions of renewable biomass for renewable energy programs, most of which classify the raw materials used to manufacture our products as waste materials. Ideally there should be just one.

Thank you for the opportunity to submit comments and please do not hesitate to contact David Beaudreau at [**Redacted**] or [**Redacted**] if you have any comments or questions. The Wood Fiber Coalition looks forward to continuing to support the work of the Congress on this important matter.

Sincerely,
Respectfully,

THOMAS A. JULIA,
President,
Composite Panel Association;

ANDY COUNTS,
Chief Executive Officer,
American Home Furnishings Alliance;

ROBERT J. DOLIBOIS,
Executive Vice President,
American Nursery & Landscape Association;

THOMAS REARDON,
Executive Director,
The Business and Institutional Furniture Manufacturer's Association;

ROBERT LAGASSE,
Executive Director,
Mulch & Soil Council;

PETER J. MORAN,
Chief Executive Officer,
Society of American Florists.